



ANNUAL STATEMENT

For the Year Ended December 31, 2013
of the Condition and Affairs of the

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

| | | |
|--|---|--|
| NAIC Group Code.....572, 572 (Current Period) (Prior Period) | NAIC Company Code..... 54291 | Employer's ID Number..... 38-2069753 |
| Organized under the Laws of Michigan | State of Domicile or Port of Entry Michigan | Country of Domicile US |
| Licensed as Business Type.....Non Profit Mutual Disability Insurance Co. | Is HMO Federally Qualified? Yes [] No [X] | |
| Incorporated/Organized..... September 6, 2013 | Commenced Business..... January 1, 2014 | |
| Statutory Home Office | 600 Lafayette East..... Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code) | |
| Main Administrative Office | 600 Lafayette East..... Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code) | (Area Code) (Telephone Number) |
| Mail Address | 600 Lafayette East..... Detroit MI 48226 (Street and Number or P. O. Box) (City or Town, State and Zip Code) | |
| Primary Location of Books and Records | 600 Lafayette East..... Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code) | (Area Code) (Telephone Number) |
| Internet Web Site Address | http://bcbsm.com/ | |
| Statutory Statement Contact | Kenneth A. Bluhm (Name) kbluhm@bcbsm.com (E-Mail Address) | 313-225-9095 (Area Code) (Telephone Number) (Extension) 800-556-4348 (Fax Number) |

OFFICERS

| Name | Title | Name | Title |
|--------------------|------------------------------|---------------------|------------------------------------|
| 1. DANIEL J. LOEPP | President and CEO | 2. MARK R. BARTLETT | Executive Vice President and CFO |
| 3. CAROLYNN WALTON | Vice President and Treasurer | 4. TRICIA A. KEITH | SVP Corporate Secretary & Services |

OTHER

| | | | |
|----------------------|--------------------------|----------------------|--------------------------|
| ELIZABETH R. HAAR | Senior Vice President | JOSEPH H. HOHNER | Executive Vice President |
| THOMAS L. SIMMER MD | Senior Vice President | SUSAN L. BARKELL | Senior Vice President |
| KENNETH R. DALLAFIOR | Executive Vice President | DARRELL E. MIDDLETON | Executive Vice President |
| LYNDA M. ROSSI | Senior Vice President | DAVID A. SHARE MD | Senior Vice President |

DIRECTORS OR TRUSTEES

| | | | |
|---------------------------|------------------------|-------------------------|-----------------------|
| JOSEPH J. ASHTON | JON E. BARFIELD | WILLIAM H. BLACK | EDWARD J. CANFIELD DO |
| DIANE R. GODDEERIS RN,BSN | TERRY W. BURNS | BRIAN M. CONNOLLY | PATRICK J. DEVLIN |
| KARLA G. SWIFT | SARAH W. DOYLE | KATHLEEN S. NEAL | DARRELL BURKS |
| ANNE M. MERVENNE | WALLACE D. RILEY | SPENCER C. JOHNSON | GARY H. TORGOW |
| MELVIN L. LARSEN | DANIEL J. LOEPP | F. REMINGTON SPRAGUE MD | GARY J. MCINERNEY |
| LAURA D. SWARTZMILLER | EDWARD G. JANKOWSKI MD | ROBERT A. PATZER | RENEE C. AXT |
| BOB KING | JAMES W. RICHARDS RPH | STEVEN B. COOK | JAMES U. SETTLES JR |
| EDWIN SECORD DDS,MS | GREGORY A. SUDDERTH | S. MARTIN TAYLOR | WILLIAM E. MEYERS |
| JEAN L. ROSE | JOHN VANDERMOLLEN | | |

State of.....Michigan.
County of.....Wayne

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

| | | |
|--|---|---|
| (Signature) DANIEL J. LOEPP | (Signature) MARK R. BARTLETT | (Signature) CAROLYNN WALTON |
| 1. (Printed Name) President and CEO | 2. (Printed Name) Executive Vice President and CFO | 3. (Printed Name) Vice President and Treasurer |
| (Title) | (Title) | (Title) |

Subscribed and sworn to before me
This _____ day of _____ 2014

a. Is this an original filing? Yes [X] No []

b. If no

1. State the amendment number _____

2. Date filed _____

3. Number of pages attached _____

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
ASSETS

| | Current Year | | | Prior Year |
|---|---------------|--------------------|-----------------------------------|---------------------|
| | 1 | 2 | 3 | 4 |
| | Assets | Nonadmitted Assets | Net Admitted Assets (Cols. 1 - 2) | Net Admitted Assets |
| 1. Bonds (Schedule D)..... | 3,291,692,016 | | 3,291,692,016 | 3,217,026,015 |
| 2. Stocks (Schedule D): | | | | |
| 2.1 Preferred stocks..... | 7,700,998 | | 7,700,998 | 11,973,420 |
| 2.2 Common stocks..... | 2,479,600,698 | | 2,479,600,698 | 2,332,481,238 |
| 3. Mortgage loans on real estate (Schedule B): | | | | |
| 3.1 First liens..... | 4,250,000 | | 4,250,000 | 4,250,000 |
| 3.2 Other than first liens..... | | | 0 | |
| 4. Real estate (Schedule A): | | | | |
| 4.1 Properties occupied by the company (less \$.....0 encumbrances)..... | 137,912,093 | | 137,912,093 | 144,023,412 |
| 4.2 Properties held for the production of income (less \$.....0 encumbrances)..... | | | 0 | |
| 4.3 Properties held for sale (less \$.....0 encumbrances)..... | | | 0 | |
| 5. Cash (\$.....(163,271,090), Schedule E-Part 1), cash equivalents (\$.....0, Schedule E-Part 2) and short-term investments (\$.....589,932,696, Schedule DA)..... | 426,661,606 | | 426,661,606 | 514,868,735 |
| 6. Contract loans (including \$.....0 premium notes)..... | | | 0 | |
| 7. Derivatives (Schedule DB)..... | | | 0 | |
| 8. Other invested assets (Schedule BA)..... | 329,283,550 | | 329,283,550 | 284,518,884 |
| 9. Receivables for securities..... | | | 0 | 498,052 |
| 10. Securities lending reinvested collateral assets (Schedule DL)..... | 12,673,387 | | 12,673,387 | 17,620,770 |
| 11. Aggregate write-ins for invested assets..... | 0 | 0 | 0 | 0 |
| 12. Subtotals, cash and invested assets (Lines 1 to 11)..... | 6,689,774,348 | 0 | 6,689,774,348 | 6,527,260,526 |
| 13. Title plants less \$.....0 charged off (for Title insurers only)..... | | | 0 | |
| 14. Investment income due and accrued..... | 29,525,800 | | 29,525,800 | 27,545,740 |
| 15. Premiums and considerations: | | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection..... | 58,335,622 | | 58,335,622 | 48,194,147 |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums)..... | | | 0 | |
| 15.3 Accrued retrospective premiums..... | | | 0 | |
| 16. Reinsurance: | | | | |
| 16.1 Amounts recoverable from reinsurers..... | | | 0 | |
| 16.2 Funds held by or deposited with reinsured companies..... | | | 0 | |
| 16.3 Other amounts receivable under reinsurance contracts..... | | | 0 | |
| 17. Amounts receivable relating to uninsured plans..... | 180,668,825 | 11,683,529 | 168,985,296 | 143,163,223 |
| 18.1 Current federal and foreign income tax recoverable and interest thereon..... | 17,989,911 | | 17,989,911 | |
| 18.2 Net deferred tax asset..... | 154,970,777 | 15,482,862 | 139,487,915 | 99,855,251 |
| 19. Guaranty funds receivable or on deposit..... | | | 0 | |
| 20. Electronic data processing equipment and software..... | 283,774,528 | 239,989,321 | 43,785,207 | 38,034,102 |
| 21. Furniture and equipment, including health care delivery assets (\$.....0)..... | 9,783,523 | 9,783,523 | 0 | |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates..... | | | 0 | |
| 23. Receivables from parent, subsidiaries and affiliates..... | 107,028,823 | | 107,028,823 | 100,963,203 |
| 24. Health care (\$.....92,082,035) and other amounts receivable..... | 145,377,263 | 16,340,380 | 129,036,883 | 118,262,933 |
| 25. Aggregate write-ins for other than invested assets..... | 382,103,637 | 50,877,378 | 331,226,259 | 366,166,867 |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)..... | 8,059,333,057 | 344,156,993 | 7,715,176,064 | 7,469,445,992 |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts..... | | | 0 | |
| 28. TOTALS (Lines 26 and 27)..... | 8,059,333,057 | 344,156,993 | 7,715,176,064 | 7,469,445,992 |
| DETAILS OF WRITE-INS | | | | |
| 1101. | | | 0 | |
| 1102. | | | 0 | |
| 1103. | | | 0 | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page..... | 0 | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)..... | 0 | 0 | 0 | 0 |
| 2501. Miscellaneous Accounts Receivable..... | 18,372,796 | 18,372,796 | 0 | |
| 2502. Prepaid and Other Assets..... | 16,136,440 | 16,136,440 | 0 | |
| 2503. Interim Receivable from Providers..... | 347,557,028 | 16,330,769 | 331,226,259 | 366,166,867 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page..... | 37,373 | 37,373 | 0 | 0 |
| 2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above)..... | 382,103,637 | 50,877,378 | 331,226,259 | 366,166,867 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
LIABILITIES, CAPITAL AND SURPLUS

| | Current Period | | | Prior Year |
|---|--------------------|----------------|--------------------|--------------------|
| | 1 Covered | 2 Uncovered | 3 Total | 4 Total |
| 1. Claims unpaid (less \$.....0 reinsurance ceded)..... |581,388,631 | ..... | .....581,388,631 |604,668,496 |
| 2. Accrued medical incentive pool and bonus amounts..... |29,502,192 | ..... | .....29,502,192 |29,681,987 |
| 3. Unpaid claims adjustment expenses..... |79,341,045 | ..... | .....79,341,045 |86,574,329 |
| 4. Aggregate health policy reserves, including the liability of \$.....0 for medical loss ratio rebate per the Public Health Service Act..... |635,046,545 | ..... | .....635,046,545 |765,363,027 |
| 5. Aggregate life policy reserves..... | ..... | ..... | .....0 | ..... |
| 6. Property/casualty unearned premium reserve..... | ..... | ..... | .....0 | ..... |
| 7. Aggregate health claim reserves..... | ..... | ..... | .....0 | ..... |
| 8. Premiums received in advance..... |2,625,898 | ..... | .....2,625,898 |3,482,088 |
| 9. General expenses due or accrued..... |374,215,587 | ..... | .....374,215,587 |279,949,812 |
| 10.1 Current federal and foreign income tax payable and interest thereon (including \$.....9,825,449 on realized capital gains (losses))..... | ..... | ..... | .....0 |14,848,791 |
| 10.2 Net deferred tax liability..... | ..... | ..... | .....0 | ..... |
| 11. Ceded reinsurance premiums payable..... |273,696 | ..... | .....273,696 |1,739,898 |
| 12. Amounts withheld or retained for the account of others..... |22,028,633 | ..... | .....22,028,633 |18,002,020 |
| 13. Remittances and items not allocated..... |14,508,154 | ..... | .....14,508,154 |9,731,988 |
| 14. Borrowed money (including \$.....205,483,014 current) and interest thereon \$.....845,450 (including \$.....845,450 current)..... |1,177,328,463 | ..... | .....1,177,328,463 |1,061,956,761 |
| 15. Amounts due to parent, subsidiaries and affiliates..... |39,994,287 | ..... | .....39,994,287 |50,367,059 |
| 16. Derivatives..... | ..... | ..... | .....0 | ..... |
| 17. Payable for securities..... |1,199,851 | ..... | .....1,199,851 |2,075,299 |
| 18. Payable for securities lending..... |12,673,387 | ..... | .....12,673,387 |17,620,770 |
| 19. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers, \$.....0 unauthorized and \$.....0 certified reinsurers)..... | ..... | ..... | .....0 | ..... |
| 20. Reinsurance in unauthorized and certified (\$.....0) companies..... | ..... | ..... | .....0 | ..... |
| 21. Net adjustments in assets and liabilities due to foreign exchange rates..... | ..... | ..... | .....0 | ..... |
| 22. Liability for amounts held under uninsured plans..... |464,966,380 | ..... | .....464,966,380 |403,635,567 |
| 23. Aggregate write-ins for other liabilities (including \$.....0 current)..... |991,359,718 |0 |991,359,718 |1,059,150,833 |
| 24. Total liabilities (Lines 1 to 23)..... |4,426,452,467 |0 |4,426,452,467 |4,408,848,725 |
| 25. Aggregate write-ins for special surplus funds..... |XXX..... |XXX..... |0 |0 |
| 26. Common capital stock..... |XXX..... |XXX..... | ..... | ..... |
| 27. Preferred capital stock..... |XXX..... |XXX..... | ..... | ..... |
| 28. Gross paid in and contributed surplus..... |XXX..... |XXX..... | ..... | ..... |
| 29. Surplus notes..... |XXX..... |XXX..... | ..... | ..... |
| 30. Aggregate write-ins for other than special surplus funds..... |XXX..... |XXX..... |0 |0 |
| 31. Unassigned funds (surplus)..... |XXX..... |XXX..... |3,288,723,597 |3,060,597,267 |
| 32. Less treasury stock at cost: | | | | |
| 32.1 .....0.000 shares common (value included in Line 26 \$.....0)..... |XXX..... |XXX..... | ..... | ..... |
| 32.2 .....0.000 shares preferred (value included in Line 27 \$.....0)..... |XXX..... |XXX..... | ..... | ..... |
| 33. Total capital and surplus (Lines 25 to 31 minus Line 32)..... |XXX..... |XXX..... |3,288,723,597 |3,060,597,267 |
| 34. Total liabilities, capital and surplus (Lines 24 and 33)..... |XXX..... |XXX..... |7,715,176,064 |7,469,445,992 |

DETAILS OF WRITE-INS

| | | | | |
|--|------------------|---------------|------------------|--------------------|
| 2301. Postretirement Liabilities..... |807,542,718 | ..... | .....807,542,718 |810,420,225 |
| 2302. Liability for Uncashed Checks..... |7,948,766 | ..... | .....7,948,766 |8,705,526 |
| 2303. Interim Payable to Providers..... |14,543,580 | ..... | .....14,543,580 |111,270,274 |
| 2398. Summary of remaining write-ins for Line 23 from overflow page..... |161,324,654 |0 |161,324,654 |128,754,808 |
| 2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)..... |991,359,718 |0 |991,359,718 |1,059,150,833 |
| 2501. |XXX..... |XXX..... | ..... | ..... |
| 2502. |XXX..... |XXX..... | ..... | ..... |
| 2503. |XXX..... |XXX..... | ..... | ..... |
| 2598. Summary of remaining write-ins for Line 25 from overflow page..... |XXX..... |XXX..... |0 |0 |
| 2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above)..... |XXX..... |XXX..... |0 |0 |
| 3001. |XXX..... |XXX..... | ..... | ..... |
| 3002. |XXX..... |XXX..... | ..... | ..... |
| 3003. |XXX..... |XXX..... | ..... | ..... |
| 3098. Summary of remaining write-ins for Line 30 from overflow page..... |XXX..... |XXX..... |0 |0 |
| 3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)..... |XXX..... |XXX..... |0 |0 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES

| | Current Year | | Prior Year |
|---|----------------|--------------------|--------------------|
| | 1 Uncovered | 2 Total | 3 Total |
| 1. Member months..... |XXX..... |18,053,589 |17,796,250 |
| 2. Net premium income (including \$.....0 non-health premium income)..... |XXX..... |6,572,304,337 |6,319,342,469 |
| 3. Change in unearned premium reserves and reserve for rate credits..... |XXX..... |77,367,755 |58,910,622 |
| 4. Fee-for-service (net of \$.....0 medical expenses)..... |XXX..... | | |
| 5. Risk revenue..... |XXX..... | | |
| 6. Aggregate write-ins for other health care related revenues..... |XXX..... |38,756,233 |34,432,084 |
| 7. Aggregate write-ins for other non-health revenues..... |XXX..... |0 |0 |
| 8. Total revenues (Lines 2 to 7)..... |XXX..... |6,688,428,325 |6,412,685,175 |
| Hospital and Medical: | | | |
| 9. Hospital/medical benefits..... | |4,745,688,693 |4,581,182,879 |
| 10. Other professional services..... | |100,168,341 |100,049,300 |
| 11. Outside referrals..... | | | |
| 12. Emergency room and out-of-area..... | | | |
| 13. Prescription drugs..... | |906,401,142 |868,739,945 |
| 14. Aggregate write-ins for other hospital and medical..... |0 |0 |0 |
| 15. Incentive pool, withhold adjustments and bonus amounts..... | |47,862,701 |48,895,114 |
| 16. Subtotal (Lines 9 to 15)..... |0 |5,800,120,877 |5,598,867,238 |
| Less: | | | |
| 17. Net reinsurance recoveries..... | | | |
| 18. Total hospital and medical (Lines 16 minus 17)..... |0 |5,800,120,877 |5,598,867,238 |
| 19. Non-health claims (net)..... | | | |
| 20. Claims adjustment expenses, including \$....141,205,542 cost containment expenses..... | |345,801,057 |340,387,526 |
| 21. General administrative expenses..... | |863,414,343 |731,052,409 |
| 22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only)..... | |(52,948,727) |(36,643,753) |
| 23. Total underwriting deductions (Lines 18 through 22)..... |0 |6,956,387,550 |6,633,663,420 |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23)..... |XXX..... |(267,959,225) |(220,978,245) |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17)..... | |129,678,918 |158,127,747 |
| 26. Net realized capital gains or (losses) less capital gains tax of \$....21,394,494..... | |39,295,036 |94,722,072 |
| 27. Net investment gains or (losses) (Lines 25 plus 26)..... |0 |168,973,953 |252,849,819 |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)]..... | | | |
| 29. Aggregate write-ins for other income or expenses..... |0 |9,004,359 |(268,260) |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)..... |XXX..... |(89,980,913) |31,603,315 |
| 31. Federal and foreign income taxes incurred..... |XXX..... |(4,039,089) |34,152,745 |
| 32. Net income (loss) (Lines 30 minus 31)..... |XXX..... |(85,941,824) |(2,549,430) |
| DETAILS OF WRITE-INS | | | |
| 0601. Michigan claim tax..... |XXX..... |38,756,233 |34,432,084 |
| 0602. |XXX..... | | |
| 0603. |XXX..... | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page..... |XXX..... |0 |0 |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)..... |XXX..... |38,756,233 |34,432,084 |
| 0701. |XXX..... | | |
| 0702. |XXX..... | | |
| 0703. |XXX..... | | |
| 0798. Summary of remaining write-ins for Line 7 from overflow page..... |XXX..... |0 |0 |
| 0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above)..... |XXX..... |0 |0 |
| 1401. | | | |
| 1402. | | | |
| 1403. | | | |
| 1498. Summary of remaining write-ins for Line 14 from overflow page..... |0 |0 |0 |
| 1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)..... |0 |0 |0 |
| 2901. Miscellaneous Income..... | |9,004,359 |(268,260) |
| 2902. | | | |
| 2903. | | | |
| 2998. Summary of remaining write-ins for Line 29 from overflow page..... |0 |0 |0 |
| 2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above)..... |0 |9,004,359 |(268,260) |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES (Continued)

| CAPITAL AND SURPLUS ACCOUNT | 1 Current Year | 2 Prior Year |
|--|-------------------|-----------------|
| 33. Capital and surplus prior reporting period..... | 3,060,597,267 | 2,789,651,952 |
| 34. Net income or (loss) from Line 32..... | (85,941,824) | (2,549,430) |
| 35. Change in valuation basis of aggregate policy and claim reserves..... | | |
| 36. Change in net unrealized capital gains and (losses) less capital gains tax of \$....(345,824)..... | 217,683,301 | 281,899,223 |
| 37. Change in net unrealized foreign exchange capital gain or (loss)..... | (1,331,518) | |
| 38. Change in net deferred income tax..... | 94,828,079 | 29,300,098 |
| 39. Change in nonadmitted assets..... | (58,740,999) | 7,713,918 |
| 40. Change in unauthorized and certified reinsurance..... | | |
| 41. Change in treasury stock..... | | |
| 42. Change in surplus notes..... | | |
| 43. Cumulative effect of changes in accounting principles..... | | |
| 44. Capital changes: | | |
| 44.1 Paid in..... | | |
| 44.2 Transferred from surplus (Stock Dividend)..... | | |
| 44.3 Transferred to surplus..... | | |
| 45. Surplus adjustments: | | |
| 45.1 Paid in..... | | |
| 45.2 Transferred to capital (Stock Dividend)..... | | |
| 45.3 Transferred from capital..... | | |
| 46. Dividends to stockholders..... | | |
| 47. Aggregate write-ins for gains or (losses) in surplus..... | 61,629,290 | (45,418,494) |
| 48. Net change in capital and surplus (Lines 34 to 47)..... | 228,126,329 | 270,945,315 |
| 49. Capital and surplus end of reporting period (Line 33 plus 48)..... | 3,288,723,597 | 3,060,597,267 |

| DETAILS OF WRITE-INS | | |
|--|---------------|--------------|
| 4701. Additional Pension Liability..... | | (45,418,494) |
| 4702. Initial recognition of SSAP No. 92 and No.102..... | (37,918,804) | |
| 4703. Additional amount recognized per INT 13-03..... | (175,268,220) | |
| 4798. Summary of remaining write-ins for Line 47 from overflow page..... | 274,816,314 | 0 |
| 4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)..... | 61,629,290 | (45,418,494) |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
CASH FLOW

| | 1 Current Year | 2 Prior Year |
|--|-------------------|-----------------|
| CASH FROM OPERATIONS | | |
| 1. Premiums collected net of reinsurance..... | 6,559,840,470 | 6,386,622,362 |
| 2. Net investment income..... | 123,716,636 | 132,799,496 |
| 3. Miscellaneous income..... | 38,756,233 | 34,432,084 |
| 4. Total (Lines 1 through 3)..... | 6,722,313,339 | 6,553,853,942 |
| 5. Benefit and loss related payments..... | 5,847,866,050 | 5,531,858,794 |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts..... | | |
| 7. Commissions, expenses paid and aggregate write-ins for deductions..... | 1,051,686,583 | 758,041,284 |
| 8. Dividends paid to policyholders..... | | |
| 9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses)..... | 50,194,107 | 39,153,954 |
| 10. Total (Lines 5 through 9)..... | 6,949,746,740 | 6,329,054,032 |
| 11. Net cash from operations (Line 4 minus Line 10)..... | (227,433,401) | 224,799,911 |
| CASH FROM INVESTMENTS | | |
| 12. Proceeds from investments sold, matured or repaid: | | |
| 12.1 Bonds..... | 7,026,132,881 | 5,215,342,978 |
| 12.2 Stocks..... | 984,718,578 | 210,230,888 |
| 12.3 Mortgage loans..... | | |
| 12.4 Real estate..... | | 8,408,326 |
| 12.5 Other invested assets..... | 7,469,645 | 1,403,131 |
| 12.6 Net gains or (losses) on cash, cash equivalents and short-term investments..... | 9,691 | 10,207 |
| 12.7 Miscellaneous proceeds..... | 5,445,435 | 12,059,204 |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7)..... | 8,023,776,230 | 5,447,454,734 |
| 13. Cost of investments acquired (long-term only): | | |
| 13.1 Bonds..... | 7,143,106,196 | 5,248,105,260 |
| 13.2 Stocks..... | 808,657,293 | 237,131,365 |
| 13.3 Mortgage loans..... | | |
| 13.4 Real estate..... | 4,186,672 | 12,668,441 |
| 13.5 Other invested assets..... | 41,605,888 | 35,939,401 |
| 13.6 Miscellaneous applications..... | 875,448 | 25,482 |
| 13.7 Total investments acquired (Lines 13.1 to 13.6)..... | 7,998,431,497 | 5,533,869,949 |
| 14. Net increase (decrease) in contract loans and premium notes..... | | |
| 15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14)..... | 25,344,733 | (86,415,215) |
| CASH FROM FINANCING AND MISCELLANEOUS SOURCES | | |
| 16. Cash provided (applied): | | |
| 16.1 Surplus notes, capital notes..... | | |
| 16.2 Capital and paid in surplus, less treasury stock..... | | |
| 16.3 Borrowed funds..... | 115,354,659 | (36,624,761) |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities..... | | |
| 16.5 Dividends to stockholders..... | | |
| 16.6 Other cash provided (applied)..... | (1,473,120) | (48,203,764) |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)..... | 113,881,539 | (84,828,525) |
| RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS | | |
| 18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)..... | (88,207,129) | 53,556,171 |
| 19. Cash, cash equivalents and short-term investments: | | |
| 19.1 Beginning of year..... | 514,868,735 | 461,312,564 |
| 19.2 End of year (Line 18 plus Line 19.1)..... | 426,661,605 | 514,868,735 |

Note: Supplemental disclosures of cash flow information for non-cash transactions:

| | | |
|---------------|-------|-------|
| 20.0001 | | |
|---------------|-------|-------|

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

| | | 1 | 2 | 3 | 4 |
|------------------|---|--------------------|------------------------|----------------------|--|
| Line of Business | | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income (Cols. 1 + 2 - 3) |
| 1. | Comprehensive (hospital and medical)..... | 4,279,310,690 | | | 4,279,310,690 |
| 2. | Medicare supplement..... | 300,378,444 | | | 300,378,444 |
| 3. | Dental only..... | 97,111,680 | | | 97,111,680 |
| 4. | Vision only..... | 17,197,626 | | | 17,197,626 |
| 5. | Federal employees health benefits plan..... | 404,182,639 | | | 404,182,639 |
| 6. | Title XVIII - Medicare..... | 1,126,944,123 | | | 1,126,944,123 |
| 7. | Title XIX - Medicaid..... | | | | 0 |
| 8. | Other health..... | 347,179,135 | | | 347,179,135 |
| 9. | Health subtotal (Lines 1 through 8)..... | 6,572,304,337 | 0 | 0 | 6,572,304,337 |
| 10. | Life..... | | | | 0 |
| 11. | Property/casualty..... | | | | 0 |
| 12. | Totals (Lines 9 to 11)..... | 6,572,304,337 | 0 | 0 | 6,572,304,337 |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
| | Total | Comprehensive (Hospital and Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefits Plan | Title XVIII Medicare | Title XIX Medicaid | Other Health | Other Non-Health |
| 1. Payments during the year: | | | | | | | | | | |
| 1.1 Direct..... | 5,762,744,247 | 3,636,126,340 | 462,366,697 | 80,974,947 | 13,649,730 | 378,650,905 | 966,852,659 | | 224,122,969 | |
| 1.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 1.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 1.4 Net..... | 5,762,744,247 | 3,636,126,340 | 462,366,697 | 80,974,947 | 13,649,730 | 378,650,905 | 966,852,659 | 0 | 224,122,969 | 0 |
| 2. Paid medical incentive pools and bonuses..... | 48,042,496 | 46,457,053 | | | | | 1,585,443 | | | |
| 3. Claim liability December 31, current year from Part 2A: | | | | | | | | | | |
| 3.1 Direct..... | 581,388,631 | 327,569,504 | 68,005,865 | 3,723,000 | 712,508 | 32,189,422 | 130,094,713 | | 19,093,621 | |
| 3.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 3.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 3.4 Net..... | 581,388,631 | 327,569,504 | 68,005,865 | 3,723,000 | 712,508 | 32,189,422 | 130,094,713 | 0 | 19,093,621 | 0 |
| 4. Claim reserve December 31, current year from Part 2D: | | | | | | | | | | |
| 4.1 Direct..... | 0 | | | | | | | | | |
| 4.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 4.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 4.4 Net..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Accrued medical incentive pools and bonuses, current year..... | 29,502,192 | 22,821,549 | | | | | 6,680,643 | | | |
| 6. Net healthcare receivables (a)..... | (12,793,794) | (12,793,794) | | | | | | | | |
| 7. Amounts recoverable from reinsurers December 31, current year..... | 0 | | | | | | | | | |
| 8. Claim liability December 31, prior year from Part 2A: | | | | | | | | | | |
| 8.1 Direct..... | 604,668,496 | 359,699,143 | 72,661,914 | 4,816,732 | 1,014,265 | 34,803,173 | 110,062,724 | | 21,610,545 | |
| 8.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 8.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 8.4 Net..... | 604,668,496 | 359,699,143 | 72,661,914 | 4,816,732 | 1,014,265 | 34,803,173 | 110,062,724 | 0 | 21,610,545 | 0 |
| 9. Claim reserve December 31, prior year from Part 2D: | | | | | | | | | | |
| 9.1 Direct..... | 0 | | | | | | | | | |
| 9.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 9.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 9.4 Net..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10. Accrued medical incentive pools and bonuses, prior year..... | 29,681,987 | 29,681,987 | | | | | | | | |
| 11. Amounts recoverable from reinsurers December 31, prior year..... | 0 | | | | | | | | | |
| 12. Incurred benefits: | | | | | | | | | | |
| 12.1 Direct..... | 5,752,258,176 | 3,616,790,495 | 457,710,648 | 79,881,215 | 13,347,973 | 376,037,154 | 986,884,648 | 0 | 221,606,045 | 0 |
| 12.2 Reinsurance assumed..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12.3 Reinsurance ceded..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12.4 Net..... | 5,752,258,176 | 3,616,790,495 | 457,710,648 | 79,881,215 | 13,347,973 | 376,037,154 | 986,884,648 | 0 | 221,606,045 | 0 |
| 13. Incurred medical incentive pools and bonuses..... | 47,862,701 | 39,596,615 | 0 | 0 | 0 | 0 | 8,266,086 | 0 | 0 | 0 |

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|-------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
| | Total | Comprehensive (Medical and Hospital) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefits Plan | Title XVIII Medicare | Title XIX Medicaid | Other Health | Other Non-Health |
| 1. Reported in process of adjustment: | | | | | | | | | | |
| 1.1 Direct..... | 114,777,921 | 72,220,127 | 14,988,831 | 41,832 | 450,074 | 7,094,709 | 15,806,127 | | 4,176,221 | |
| 1.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 1.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 1.4 Net..... | 114,777,921 | 72,220,127 | 14,988,831 | 41,832 | 450,074 | 7,094,709 | 15,806,127 | 0 | 4,176,221 | 0 |
| 2. Incurred but unreported: | | | | | | | | | | |
| 2.1 Direct..... | 466,610,710 | 255,349,377 | 53,017,034 | 3,681,168 | 262,434 | 25,094,713 | 114,288,586 | | 14,917,400 | |
| 2.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 2.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 2.4 Net..... | 466,610,710 | 255,349,377 | 53,017,034 | 3,681,168 | 262,434 | 25,094,713 | 114,288,586 | 0 | 14,917,400 | 0 |
| 3. Amounts withheld from paid claims and capitations: | | | | | | | | | | |
| 3.1 Direct..... | 0 | | | | | | | | | |
| 3.2 Reinsurance assumed..... | 0 | | | | | | | | | |
| 3.3 Reinsurance ceded..... | 0 | | | | | | | | | |
| 3.4 Net..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Totals: | | | | | | | | | | |
| 4.1 Direct..... | 581,388,631 | 327,569,504 | 68,005,865 | 3,723,000 | 712,508 | 32,189,422 | 130,094,713 | 0 | 19,093,621 | 0 |
| 4.2 Reinsurance assumed..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.3 Reinsurance ceded..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.4 Net..... | 581,388,631 | 327,569,504 | 68,005,865 | 3,723,000 | 712,508 | 32,189,422 | 130,094,713 | 0 | 19,093,621 | 0 |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

| Line of Business | Claims Paid During the Year | | Claim Reserve and Claim Liability December 31 of Current Year | | 5 Claims Incurred in Prior Years (Columns 1 + 3) | 6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year |
|--|--|---|--|---|---|--|
| | 1 On Claims Incurred Prior to January 1 of Current Year | 2 On Claims Incurred During the Year | 3 On Claims Unpaid December 31 of Prior Year | 4 On Claims Incurred During the Year | | |
| 1. Comprehensive (hospital and medical)..... | 322,096,285 | 3,376,205,345 | 1,268,972 | 326,300,531 | 323,365,257 | 359,699,143 |
| 2. Medicare supplement..... | 57,092,746 | 405,273,952 | 541,816 | 67,464,049 | 57,634,562 | 72,661,914 |
| 3. Dental only..... | 4,381,106 | 76,593,840 | 289,422 | 3,433,578 | 4,670,528 | 4,816,732 |
| 4. Vision only..... | 824,338 | 12,825,392 | 41,566 | 670,942 | 865,904 | 1,014,265 |
| 5. Federal employees health benefits plan..... | 33,922,489 | 344,728,416 | 202,608 | 31,986,813 | 34,125,097 | 34,803,173 |
| 6. Title XVIII - Medicare..... | 84,347,101 | 882,505,558 | 435,632 | 129,659,081 | 84,782,733 | 110,062,724 |
| 7. Title XIX - Medicaid..... | | | | | 0 | |
| 8. Other health..... | 12,047,445 | 212,075,524 | 693,619 | 18,400,002 | 12,741,064 | 21,610,546 |
| 9. Health subtotal (Lines 1 to 8)..... | 514,711,510 | 5,310,208,027 | 3,473,635 | 577,914,996 | 518,185,145 | 604,668,497 |
| 10. Healthcare receivables (a)..... | | 49,381,496 | | | 0 | |
| 11. Other non-health..... | | | | | 0 | |
| 12. Medical incentive pools and bonus amounts..... | 26,879,245 | 21,163,251 | | 29,502,192 | 26,879,245 | 29,681,987 |
| 13. Totals (Lines 9 - 10 + 11 + 12)..... | 541,590,755 | 5,281,989,782 | 3,473,635 | 607,417,188 | 545,064,390 | 634,350,484 |

(a) Excludes \$.00 loans or advances to providers not yet expensed.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|----------------|----------------|----------------|----------------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... |564,783 |557,897 |559,310 |559,753 |559,753 |
| 2. 2009..... |5,786,618 |6,326,496 |6,327,344 |6,324,638 |6,322,990 |
| 3. 2010..... |XXX |5,304,211 |5,777,089 |5,777,178 |5,774,721 |
| 4. 2011..... |XXX |XXX |5,136,684 |5,648,476 |5,644,135 |
| 5. 2012..... |XXX |XXX |XXX |5,032,218 |5,582,253 |
| 6. 2013..... |XXX |XXX |XXX |XXX |5,281,990 |

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|----------------|----------------|----------------|----------------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... |611,437 |560,161 |560,187 |559,753 |559,754 |
| 2. 2009..... |6,434,851 |6,365,387 |6,330,303 |6,324,645 |6,322,991 |
| 3. 2010..... |XXX |5,895,630 |5,801,330 |5,777,351 |5,774,726 |
| 4. 2011..... |XXX |XXX |5,685,924 |5,653,471 |5,644,612 |
| 5. 2012..... |XXX |XXX |XXX |5,661,393 |5,585,243 |
| 6. 2013..... |XXX |XXX |XXX |XXX |5,889,407 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expense | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|--|--|---------------------------------|
| 1. 2009..... |6,986,394 |6,322,991 |289,401 |4.6 |6,612,391 |94.6 | ..... | ..... | .....6,612,391 |94.6 |
| 2. 2010..... |6,574,692 |5,774,721 |252,174 |4.4 |6,026,894 |91.7 |6 |1 |6,026,901 |91.7 |
| 3. 2011..... |6,395,398 |5,644,133 |307,405 |5.4 |5,951,538 |93.1 |164 |21 |5,951,724 |93.1 |
| 4. 2012..... |6,378,252 |5,582,253 |344,851 |6.2 |5,927,105 |92.9 |3,304 |429 |5,930,838 |93.0 |
| 5. 2013..... |6,649,672 |5,281,990 |332,184 |6.3 |5,614,174 |84.4 |607,417 |78,890 |6,300,480 |94.7 |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 336,976 | 335,072 | 338,204 | 338,531 | 338,531 |
| 2. 2009..... | 3,921,109 | 4,245,230 | 4,245,056 | 4,245,991 | 4,246,467 |
| 3. 2010..... | XXX | 3,660,743 | 3,959,264 | 3,958,207 | 3,958,222 |
| 4. 2011..... | XXX | XXX | 3,453,167 | 3,767,268 | 3,765,075 |
| 5. 2012..... | XXX | XXX | XXX | 3,326,667 | 3,675,761 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 3,347,987 |

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 366,534 | 336,802 | 339,041 | 338,531 | 338,532 |
| 2. 2009..... | 4,305,379 | 4,267,555 | 4,247,376 | 4,245,995 | 4,246,468 |
| 3. 2010..... | XXX | 4,044,093 | 3,973,253 | 3,958,285 | 3,958,224 |
| 4. 2011..... | XXX | XXX | 3,774,158 | 3,769,459 | 3,765,097 |
| 5. 2012..... | XXX | XXX | XXX | 3,713,775 | 3,677,005 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 3,703,790 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 4,809,234 | 4,246,467 | 194,549 | 4.6 | 4,441,016 | 92.3 | | | 4,441,016 | 92.3 |
| 2. 2010..... | 4,592,350 | 3,958,222 | 172,582 | 4.4 | 4,130,804 | 89.9 | 2 | | 4,130,806 | 89.9 |
| 3. 2011..... | 4,422,943 | 3,765,073 | 204,854 | 5.4 | 3,969,927 | 89.8 | 79 | 10 | 3,970,016 | 89.8 |
| 4. 2012..... | 4,349,821 | 3,675,761 | 227,059 | 6.2 | 3,902,820 | 89.7 | 1,188 | 154 | 3,904,162 | 89.8 |
| 5. 2013..... | 4,350,236 | 3,347,987 | 210,558 | 6.3 | 3,558,545 | 81.8 | 355,802 | 46,211 | 3,960,558 | 91.0 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 55,349 | 56,585 | 56,770 | 56,901 | 56,901 |
| 2. 2009..... | 363,152 | 410,635 | 411,455 | 411,642 | 411,879 |
| 3. 2010..... | XXX | 379,129 | 429,432 | 429,786 | 430,070 |
| 4. 2011..... | XXX | XXX | 396,904 | 447,059 | 448,048 |
| 5. 2012..... | XXX | XXX | XXX | 403,231 | 458,814 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 405,274 |

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

12.MS

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 59,286 | 57,105 | 56,803 | 56,901 | 56,901 |
| 2. 2009..... | 419,915 | 413,996 | 412,045 | 411,642 | 411,879 |
| 3. 2010..... | XXX | 439,968 | 432,528 | 429,786 | 430,070 |
| 4. 2011..... | XXX | XXX | 459,810 | 447,721 | 448,072 |
| 5. 2012..... | XXX | XXX | XXX | 475,231 | 459,332 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 472,738 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 265,543 | 411,879 | 18,828 | 4.6 | 430,707 | 162.2 | | | 430,707 | 162.2 |
| 2. 2010..... | 277,850 | 430,070 | 18,962 | 4.4 | 449,032 | 161.6 | | | 449,032 | 161.6 |
| 3. 2011..... | 290,019 | 448,048 | 24,490 | 5.5 | 472,538 | 162.9 | 24 | 3 | 472,565 | 162.9 |
| 4. 2012..... | 305,226 | 458,814 | 28,357 | 6.2 | 487,171 | 159.6 | 518 | 67 | 487,756 | 159.8 |
| 5. 2013..... | 302,578 | 405,274 | 25,488 | 6.3 | 430,762 | 142.4 | 67,464 | 8,762 | 506,988 | 167.6 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 3,936 | 4,008 | 4,009 | 4,014 | 4,014 |
| 2. 2009..... | 67,985 | 72,202 | 72,263 | 72,300 | 72,306 |
| 3. 2010..... | XXX | 70,429 | 74,684 | 74,817 | 74,823 |
| 4. 2011..... | XXX | XXX | 58,511 | 69,087 | 69,149 |
| 5. 2012..... | XXX | XXX | XXX | 76,296 | 80,603 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 76,594 |

SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 3,982 | 4,009 | 4,009 | 4,014 | 4,014 |
| 2. 2009..... | 71,085 | 72,454 | 72,263 | 72,303 | 72,306 |
| 3. 2010..... | XXX | 74,442 | 74,830 | 74,862 | 74,823 |
| 4. 2011..... | XXX | XXX | 70,388 | 69,318 | 69,149 |
| 5. 2012..... | XXX | XXX | XXX | 80,834 | 80,892 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 80,027 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 82,387 | 72,306 | 3,318 | 4.6 | 75,623 | 91.8 | | | 75,623 | 91.8 |
| 2. 2010..... | 87,356 | 74,823 | 3,250 | 4.3 | 78,073 | 89.4 | | | 78,073 | 89.4 |
| 3. 2011..... | 81,339 | 69,149 | 3,801 | 5.5 | 72,950 | 89.7 | | | 72,950 | 89.7 |
| 4. 2012..... | 99,774 | 80,603 | 4,975 | 6.2 | 85,578 | 85.8 | 289 | 38 | 85,905 | 86.1 |
| 5. 2013..... | 99,397 | 76,594 | 4,817 | 6.3 | 81,411 | 81.9 | 3,434 | 446 | 85,291 | 85.8 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - VISION ONLY

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-------------|-------------|-------------|-------------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... |755 |759 |760 |760 |760 |
| 2. 2009..... |12,380 |13,220 |13,221 |13,221 |13,221 |
| 3. 2010..... |XXX |12,192 |13,069 |13,073 |13,073 |
| 4. 2011..... |XXX |XXX |12,059 |12,932 |12,933 |
| 5. 2012..... |XXX |XXX |XXX |12,436 |13,258 |
| 6. 2013..... |XXX |XXX |XXX |XXX |12,825 |

SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-------------|-------------|-------------|-------------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... |757 |759 |760 |760 |760 |
| 2. 2009..... |12,940 |13,221 |13,221 |13,221 |13,221 |
| 3. 2010..... |XXX |12,930 |13,071 |13,073 |13,073 |
| 4. 2011..... |XXX |XXX |12,990 |12,964 |12,933 |
| 5. 2012..... |XXX |XXX |XXX |13,418 |13,300 |
| 6. 2013..... |XXX |XXX |XXX |XXX |13,496 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... |18,278 |13,221 |606 |4.6 |13,828 |75.7 | ..... | ..... | .....13,828 |75.7 |
| 2. 2010..... |18,679 |13,073 |569 |4.3 |13,641 |73.0 | ..... | ..... | .....13,641 |73.0 |
| 3. 2011..... |17,240 |12,933 |702 |5.4 |13,636 |79.1 | ..... | ..... | .....13,636 |79.1 |
| 4. 2012..... |18,291 |13,258 |818 |6.2 |14,077 |77.0 |42 |5 |14,124 |77.2 |
| 5. 2013..... |17,514 |12,825 |807 |6.3 |13,632 |77.8 |671 |87 |14,390 |82.2 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 35,780 | 35,727 | 35,907 | 35,956 | 35,956 |
| 2. 2009..... | 284,297 | 314,625 | 314,556 | 314,576 | 314,540 |
| 3. 2010..... | XXX | 311,918 | 337,150 | 336,885 | 336,882 |
| 4. 2011..... | XXX | XXX | 318,132 | 350,393 | 350,448 |
| 5. 2012..... | XXX | XXX | XXX | 316,140 | 350,045 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 344,728 |

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 37,405 | 35,740 | 35,914 | 35,956 | 35,956 |
| 2. 2009..... | 322,331 | 314,703 | 314,581 | 314,576 | 314,540 |
| 3. 2010..... | XXX | 337,163 | 337,357 | 336,885 | 336,885 |
| 4. 2011..... | XXX | XXX | 349,344 | 350,491 | 350,475 |
| 5. 2012..... | XXX | XXX | XXX | 350,845 | 350,217 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 376,715 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 348,123 | 314,540 | 14,387 | 4.6 | 328,928 | 94.5 | | | 328,928 | 94.5 |
| 2. 2010..... | 353,943 | 336,882 | 14,683 | 4.4 | 351,565 | 99.3 | 3 | 0 | 351,569 | 99.3 |
| 3. 2011..... | 375,991 | 350,448 | 19,094 | 5.4 | 369,541 | 98.3 | 27 | 4 | 369,572 | 98.3 |
| 4. 2012..... | 379,470 | 350,045 | 21,624 | 6.2 | 371,669 | 97.9 | 172 | 22 | 371,864 | 98.0 |
| 5. 2013..... | 406,069 | 344,728 | 21,680 | 6.3 | 366,408 | 90.2 | 31,987 | 4,154 | 402,549 | 99.1 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 101,777 | 95,536 | 93,450 | 93,381 | 93,381 |
| 2. 2009..... | 933,720 | 1,052,512 | 1,052,721 | 1,048,836 | 1,046,505 |
| 3. 2010..... | XXX | 637,135 | 717,896 | 718,816 | 716,057 |
| 4. 2011..... | XXX | XXX | 669,212 | 758,018 | 754,763 |
| 5. 2012..... | XXX | XXX | XXX | 686,259 | 780,536 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 882,506 |

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 113,159 | 95,536 | 93,450 | 93,381 | 93,381 |
| 2. 2009..... | 1,076,848 | 1,064,843 | 1,052,745 | 1,048,836 | 1,046,505 |
| 3. 2010..... | XXX | 732,858 | 724,361 | 718,866 | 716,057 |
| 4. 2011..... | XXX | XXX | 771,059 | 759,114 | 755,167 |
| 5. 2012..... | XXX | XXX | XXX | 795,176 | 780,567 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 1,012,165 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 1,182,572 | 1,046,505 | 47,714 | 4.6 | 1,094,219 | 92.5 | | | 1,094,219 | 92.5 |
| 2. 2010..... | 935,678 | 716,057 | 31,480 | 4.4 | 747,537 | 79.9 | 0 | 0 | 747,538 | 79.9 |
| 3. 2011..... | 868,258 | 754,763 | 41,244 | 5.5 | 796,007 | 91.7 | 34 | 4 | 796,046 | 91.7 |
| 4. 2012..... | 885,837 | 780,536 | 48,240 | 6.2 | 828,776 | 93.6 | 401 | 52 | 829,230 | 93.6 |
| 5. 2013..... | 1,126,699 | 882,506 | 55,501 | 6.3 | 938,007 | 83.3 | 129,659 | 16,840 | 1,084,506 | 96.3 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | NONE | | | | |
| 2. 2009..... | | | | | |
| 3. 2010..... | | XXX | | | |
| 4. 2011..... | | XXX | XXX | | |
| 5. 2012..... | | XXX | XXX | XXX | |
| 6. 2013..... | | XXX | XXX | XXX | |

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | NONE | | | | |
| 2. 2009..... | | | | | |
| 3. 2010..... | | XXX | | | |
| 4. 2011..... | | XXX | XXX | | |
| 5. 2012..... | | XXX | XXX | XXX | |
| 6. 2013..... | | XXX | XXX | XXX | |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | | | | | NONE | 0.0 | | | 0 | 0.0 |
| 2. 2010..... | | | | 0.0 | | 0.0 | | | 0 | 0.0 |
| 3. 2011..... | | | | 0.0 | | 0.0 | | | 0 | 0.0 |
| 4. 2012..... | | | | 0.0 | | 0.0 | | | 0 | 0.0 |
| 5. 2013..... | | | | 0.0 | | 0.0 | | | 0 | 0.0 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 30,210 | 30,210 | 30,210 | 30,210 | 30,210 |
| 2. 2009..... | 203,975 | 218,072 | 218,072 | 218,072 | 218,072 |
| 3. 2010..... | XXX | 232,665 | 245,594 | 245,594 | 245,594 |
| 4. 2011..... | XXX | XXX | 228,699 | 243,719 | 243,719 |
| 5. 2012..... | XXX | XXX | XXX | 211,189 | 223,236 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 212,076 |

SECTION B - INCURRED HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
| | 1 2009 | 2 2010 | 3 2011 | 4 2012 | 5 2013 |
| 1. Prior..... | 30,314 | 30,210 | 30,210 | 30,210 | 30,210 |
| 2. 2009..... | 226,353 | 218,615 | 218,072 | 218,072 | 218,072 |
| 3. 2010..... | XXX | 254,176 | 245,930 | 245,594 | 245,594 |
| 4. 2011..... | XXX | XXX | 248,175 | 244,404 | 243,719 |
| 5. 2012..... | XXX | XXX | XXX | 232,114 | 223,930 |
| 6. 2013..... | XXX | XXX | XXX | XXX | 230,476 |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2009..... | 280,257 | 218,072 | 9,998 | 4.6 | 228,071 | 81.4 | | | 228,071 | 81.4 |
| 2. 2010..... | 308,836 | 245,594 | 10,648 | 4.3 | 256,242 | 83.0 | | | 256,242 | 83.0 |
| 3. 2011..... | 339,608 | 243,719 | 13,220 | 5.4 | 256,939 | 75.7 | | | 256,939 | 75.7 |
| 4. 2012..... | 339,833 | 223,236 | 13,778 | 6.2 | 237,014 | 69.7 | 694 | 90 | 237,798 | 70.0 |
| 5. 2013..... | 347,179 | 212,076 | 13,333 | 6.3 | 225,409 | 64.9 | 18,400 | 2,390 | 246,199 | 70.9 |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|-------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-------|
| | Total | Comprehensive (Hospital and Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefits Plan | Title XVIII Medicare | Title XIX Medicaid | Other |
| 1. Unearned premium reserves..... | 212,772,724 | 174,237,994 | 26,850,807 | 2,228,025 | 413,538 | 211,803 | 8,830,557 | | |
| 2. Additional policy reserves (a)..... | 249,651,778 | 25,037,592 | 224,066,226 | 547,960 | - | - | - | | |
| 3. Reserve for future contingent benefits..... | 0 | - | - | - | - | - | - | | |
| 4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income..... | 172,622,043 | 167,287,927 | - | 1,631,255 | 266,368 | 1,448,197 | 1,988,296 | | |
| 5. Aggregate write-ins for other policy reserves..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. Totals (gross)..... | 635,046,545 | 366,563,513 | 250,917,033 | 4,407,240 | 679,906 | 1,660,000 | 10,818,853 | 0 | 0 |
| 7. Reinsurance ceded..... | 0 | | | | | | | | |
| 8. Totals (net) (Page 3, Line 4)..... | 635,046,545 | 366,563,513 | 250,917,033 | 4,407,240 | 679,906 | 1,660,000 | 10,818,853 | 0 | 0 |
| 9. Present value of amounts not yet due on claims..... | 0 | | | | | | | | |
| 10. Reserve for future contingent benefits..... | 0 | | | | | | | | |
| 11. Aggregate write-ins for other claim reserves..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12. Totals (gross)..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13. Reinsurance ceded..... | 0 | | | | | | | | |
| 14. Totals (net) (Page 3, Line 7)..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

DETAILS OF WRITE-INS

| | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|
| 0501. | 0 | | | | | | | | |
| 0502. | 0 | | | | | | | | |
| 0503. | 0 | | | | | | | | |
| 0598. Summary of remaining write-ins for Line 5 from overflow page..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1101. | 0 | | | | | | | | |
| 1102. | 0 | | | | | | | | |
| 1103. | 0 | | | | | | | | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)..... | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) Includes \$.....249,651,778 premium deficiency reserve.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

| | Claim Adjustment Expenses | | 3 | 4 | 5 |
|---|---------------------------------------|--|---------------|-------------|------------------|
| | 1 Cost Containment Expenses | 2 Other Claim Adjustment Expenses | | | |
| | General Administrative Expenses | Investment Expenses | Total | | |
| 1. Rent (\$.....33,956,792 for occupancy of own building)..... | 4,868,399 | 8,615,184 | 33,303,850 | 33,278 | 46,820,711 |
| 2. Salaries, wages and other benefits..... | 116,513,273 | 180,891,794 | 421,480,353 | 1,716,349 | 720,601,769 |
| 3. Commissions (less \$.....0 ceded plus \$.....0 assumed)..... | - | - | 160,581,525 | - | 160,581,525 |
| 4. Legal fees and expenses..... | - | - | 26,578,665 | - | 26,578,665 |
| 5. Certifications and accreditation fees..... | 456,514 | - | 458,045 | - | 914,559 |
| 6. Auditing, actuarial and other consulting services..... | 32,378,735 | 7,983,682 | 152,857,734 | 318,962 | 193,539,113 |
| 7. Traveling expenses..... | 2,140,405 | 1,061,547 | 10,574,298 | 15,017 | 13,791,267 |
| 8. Marketing and advertising..... | 327,654 | 94,055 | 17,291,080 | - | 17,712,789 |
| 9. Postage, express and telephone..... | 1,374,734 | 14,012,950 | 6,077,586 | 5,342 | 21,470,612 |
| 10. Printing and office supplies..... | 2,297,085 | 4,817,170 | 4,549,419 | 79,729 | 11,743,403 |
| 11. Occupancy, depreciation and amortization..... | - | (8) | 11,228,180 | - | 11,228,172 |
| 12. Equipment..... | | | | | 0 |
| 13. Cost or depreciation of EDP equipment and software..... | 11,423,039 | 1,932,011 | 84,764,098 | 786 | 98,119,934 |
| 14. Outsourced services including EDP, claims, and other services..... | 61,546,395 | 120,461,510 | 224,110,700 | 382,808 | 406,501,413 |
| 15. Boards, bureaus and association fees..... | 1,878,832 | 23,352 | 6,628,773 | 4,414 | 8,535,371 |
| 16. Insurance, except on real estate..... | 4,311 | 879 | 4,744,937 | 675 | 4,750,802 |
| 17. Collection and bank service charges..... | | | | | 0 |
| 18. Group service and administration fees..... | 1,323,204 | 721,748 | 81,726,372 | - | 83,771,324 |
| 19. Reimbursements by uninsured plans..... | (101,136,980) | (146,538,320) | (608,127,846) | (1,091,150) | (856,894,296) |
| 20. Reimbursements from fiscal intermediaries..... | | | | - | 0 |
| 21. Real estate expenses..... | | | | | 0 |
| 22. Real estate taxes..... | - | - | 16,086 | | 16,086 |
| 23. Taxes, licenses and fees: | | | | | |
| 23.1 State and local insurance taxes..... | | | | | 0 |
| 23.2 State premium taxes..... | | | | | 0 |
| 23.3 Regulatory authority licenses and fees..... | | | 104,692,280 | | 104,692,280 |
| 23.4 Payroll taxes..... | 5,809,942 | 10,517,962 | 19,878,208 | 56,465 | 36,262,577 |
| 23.5 Other (excluding federal income and real estate taxes)..... | | | | | 0 |
| 24. Investment expenses not included elsewhere..... | | | | | 0 |
| 25. Aggregate write-ins for expenses..... | 0 | 0 | 100,000,000 | 0 | 100,000,000 |
| 26. Total expenses incurred (Lines 1 to 25)..... | 141,205,542 | 204,595,516 | 863,414,343 | 1,522,675 | (a)1,210,738,076 |
| 27. Less expenses unpaid December 31, current year..... | | 79,341,045 | 374,215,587 | | 453,556,632 |
| 28. Add expenses unpaid December 31, prior year..... | | 86,574,329 | 279,949,812 | | 366,524,141 |
| 29. Amounts receivable relating to uninsured plans, prior year..... | | 39,389,917 | 84,790,149 | | 124,180,066 |
| 30. Amounts receivable relating to uninsured plans, current year..... | | 52,605,123 | 116,380,173 | | 168,985,296 |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)..... | 141,205,542 | 225,044,006 | 800,738,592 | 1,522,675 | 1,168,510,815 |

DETAILS OF WRITE-INS

| | | | | | |
|--|---|---|-------------|---|-------------|
| 2501. Social Mission Expenses..... | | | 100,000,000 | | 100,000,000 |
| 2502. | | | | | 0 |
| 2503. | | | | | 0 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page..... | 0 | 0 | 0 | 0 | 0 |
| 2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above)..... | 0 | 0 | 100,000,000 | 0 | 100,000,000 |

(a) Includes management fees of \$....61,632,210 to affiliates and \$....147,952,299 to non-affiliates.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
EXHIBIT OF NET INVESTMENT INCOME

| | 1 Collected During Year | 2 Earned During Year |
|--|-------------------------------|----------------------------|
| 1. U.S. government bonds..... | (a).....10,554,878 |10,334,488 |
| 1.1 Bonds exempt from U.S. tax..... | (a)..... | ..... |
| 1.2 Other bonds (unaffiliated)..... | (a).....100,293,055 |103,483,920 |
| 1.3 Bonds of affiliates..... | (a)..... | ..... |
| 2.1 Preferred stocks (unaffiliated)..... | (b).....488,382 |494,280 |
| 2.11 Preferred stocks of affiliates..... | (b)..... | ..... |
| 2.2 Common stocks (unaffiliated)..... |15,761,820 |14,703,770 |
| 2.21 Common stocks of affiliates..... | ..... | ..... |
| 3. Mortgage loans..... | (c)..... | ..... |
| 4. Real estate..... | (d).....33,956,792 |33,956,792 |
| 5. Contract loans..... | ..... | ..... |
| 6. Cash, cash equivalents and short-term investments..... | (e).....488,865 |600,060 |
| 7. Derivative instruments..... | (f)..... | ..... |
| 8. Other invested assets..... |239,049 |239,049 |
| 9. Aggregate write-ins for investment income..... |(3,540,299) |(3,543,315) |
| 10. Total gross investment income..... |158,242,542 |160,269,043 |
| 11. Investment expenses..... | ..... | (g).....1,466,204 |
| 12. Investment taxes, licenses and fees, excluding federal income taxes..... | ..... | (g).....56,465 |
| 13. Interest expense..... | ..... | (h).....18,763,073 |
| 14. Depreciation on real estate and other invested assets..... | ..... | (i).....10,304,383 |
| 15. Aggregate write-ins for deductions from investment income..... | ..... | .....0 |
| 16. Total deductions (Lines 11 through 15)..... | ..... | .....30,590,125 |
| 17. Net investment income (Line 10 minus Line 16)..... | ..... | .....129,678,918 |

DETAILS OF WRITE-INS

| | | |
|--|------------------|------------------|
| 0901. SECURITY LENDING INCOME |379,526 |376,509 |
| 0902. SWEEP INCOME |3,982 |3,982 |
| 0903. MANAGEMENT FEES |(3,923,807) |(3,923,807) |
| 0998. Summary of remaining write-ins for Line 9 from overflow page..... |0 |0 |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above)..... |(3,540,299) |(3,543,315) |
| 1501. .... | ..... | ..... |
| 1502. .... | ..... | ..... |
| 1503. .... | ..... | ..... |
| 1598. Summary of remaining write-ins for Line 15 from overflow page..... | ..... | .....0 |
| 1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above)..... | ..... | .....0 |

- (a) Includes \$.....10,797,543 accrual of discount less \$.....30,424,032 amortization of premium and less \$.....23,475,194 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....33,956,792 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....1,466,204 investment expenses and \$.....56,465 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....10,304,383 depreciation on real estate and \$.....0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

| | 1 Realized Gain (Loss) on Sales or Maturity | 2 Other Realized Adjustments | 3 Total Realized Capital Gain (Loss) (Columns 1 + 2) | 4 Change in Unrealized Capital Gain (Loss) | 5 Change in Unrealized Foreign Exchange Capital Gain (Loss) |
|---|---|---------------------------------------|---|---|---|
| 1. U.S. government bonds..... |7,111,532 |(7,293) |7,104,239 |41,600 | ..... |
| 1.1 Bonds exempt from U.S. tax..... | ..... | ..... | .....0 | ..... | ..... |
| 1.2 Other bonds (unaffiliated)..... |(3,220,504) |(25,722,357) |(28,942,861) |3,910 |(1,331,518) |
| 1.3 Bonds of affiliates..... | ..... | ..... | .....0 | ..... | ..... |
| 2.1 Preferred stocks (unaffiliated)..... |487,391 |(218,725) |268,666 | ..... | ..... |
| 2.11 Preferred stocks of affiliates..... |(13,840,347) |(10,406,056) |(24,246,403) | ..... | ..... |
| 2.2 Common stocks (unaffiliated)..... |112,846,290 |(9,903,692) |102,942,598 |75,102,965 | ..... |
| 2.21 Common stocks of affiliates..... | ..... | ..... | .....0 |135,519,218 | ..... |
| 3. Mortgage loans..... | ..... | ..... | .....0 | ..... | ..... |
| 4. Real estate..... |(55,285) |(24,816) |(80,101) | ..... | ..... |
| 5. Contract loans..... | ..... | ..... | .....0 | ..... | ..... |
| 6. Cash, cash equivalents and short-term investments..... |9,691 | ..... | .....9,691 | ..... | ..... |
| 7. Derivative instruments..... | ..... | ..... | .....0 | ..... | ..... |
| 8. Other invested assets..... |3,633,700 | ..... | .....3,633,700 |7,361,434 | ..... |
| 9. Aggregate write-ins for capital gains (losses)..... |0 |0 |0 |0 |0 |
| 10. Total capital gains (losses)..... |106,972,468 |(46,282,939) |60,689,529 |218,029,127 |(1,331,518) |

DETAILS OF WRITE-INS

| | | | | | |
|---|--------|--------|--------|--------|--------|
| 0901. .... | ..... | ..... | .....0 | ..... | ..... |
| 0902. .... | ..... | ..... | .....0 | ..... | ..... |
| 0903. .... | ..... | ..... | .....0 | ..... | ..... |
| 0998. Summary of remaining write-ins for Line 9 from overflow page... |0 |0 |0 |0 |0 |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above)..... |0 |0 |0 |0 |0 |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
EXHIBIT OF NONADMITTED ASSETS

| | 1 Current Year Total Nonadmitted Assets | 2 Prior Year Total Nonadmitted Assets | 3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1) |
|---|--|--|---|
| 1. Bonds (Schedule D)..... | | |0 |
| 2. Stocks (Schedule D): | | | |
| 2.1 Preferred stocks..... | | |0 |
| 2.2 Common stocks..... | | |0 |
| 3. Mortgage loans on real estate (Schedule B): | | | |
| 3.1 First liens..... | | |0 |
| 3.2 Other than first liens..... | | |0 |
| 4. Real estate (Schedule A): | | | |
| 4.1 Properties occupied by the company..... | | |0 |
| 4.2 Properties held for the production of income..... | | |0 |
| 4.3 Properties held for sale..... | | |0 |
| 5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)..... | | |0 |
| 6. Contract loans..... | | |0 |
| 7. Derivatives (Schedule DB)..... | | |0 |
| 8. Other invested assets (Schedule BA)..... | | |0 |
| 9. Receivables for securities..... | | |0 |
| 10. Securities lending reinvested collateral assets (Schedule DL)..... | | |0 |
| 11. Aggregate write-ins for invested assets..... |0 |0 |0 |
| 12. Subtotals, cash and invested assets (Lines 1 to 11)..... |0 |0 |0 |
| 13. Title plants (for Title insurers only)..... | | |0 |
| 14. Investment income due and accrued..... | |26,655 |26,655 |
| 15. Premiums and considerations: | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection..... | | |0 |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due..... | | |0 |
| 15.3 Accrued retrospective premiums..... | | |0 |
| 16. Reinsurance: | | | |
| 16.1 Amounts recoverable from reinsurers..... | | |0 |
| 16.2 Funds held by or deposited with reinsured companies..... | | |0 |
| 16.3 Other amounts receivable under reinsurance contracts..... | | |0 |
| 17. Amounts receivable relating to uninsured plans..... |11,683,529 |535,334 |(11,148,195) |
| 18.1 Current federal and foreign income tax recoverable and interest thereon..... | | |0 |
| 18.2 Net deferred tax asset..... |15,482,862 | |(15,482,862) |
| 19. Guaranty funds receivable or on deposit..... | | |0 |
| 20. Electronic data processing equipment and software..... |239,989,321 |234,395,513 |(5,593,808) |
| 21. Furniture and equipment, including health care delivery assets..... |9,783,523 |10,522,107 |738,584 |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates..... | | |0 |
| 23. Receivables from parent, subsidiaries and affiliates..... | | |0 |
| 24. Health care and other amounts receivable..... |16,340,380 |2,828,817 |(13,511,563) |
| 25. Aggregate write-ins for other than invested assets..... |50,877,378 |37,107,568 |(13,769,810) |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25)..... |344,156,993 |285,415,994 |(58,740,999) |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts..... | | |0 |
| 28. TOTALS (Lines 26 and 27)..... |344,156,993 |285,415,994 |(58,740,999) |

DETAILS OF WRITE-INS

| | | | |
|--|-----------------|-----------------|-------------------|
| 1101. | | |0 |
| 1102. | | |0 |
| 1103. | | |0 |
| 1198. Summary of remaining write-ins for Line 11 from overflow page..... |0 |0 |0 |
| 1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above)..... |0 |0 |0 |
| 2501. Miscellaneous Accounts Receivable..... |18,372,796 |13,480,880 |(4,891,916) |
| 2502. Prepaid and Other Assets..... |16,136,440 |10,004,542 |(6,131,898) |
| 2503. Company Owned Automobile..... |37,373 |63,620 |26,247 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page..... |16,330,769 |13,558,526 |(2,772,243) |
| 2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above)..... |50,877,378 |37,107,568 |(13,769,810) |

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment | Total Members at End of | | | | | 6 Current Year Member Months |
|---|-------------------------|-----------------------|------------------------|-----------------------|----------------------|---------------------------------------|
| | 1 Prior Year | 2 First Quarter | 3 Second Quarter | 4 Third Quarter | 5 Current Year | |
| 1. Health maintenance organizations..... | | | | | | |
| 2. Provider service organizations..... | | | | | | |
| 3. Preferred provider organizations..... | 1,112,191 | 1,097,226 | 1,079,682 | 1,070,478 | 1,036,481 | 12,889,613 |
| 4. Point of service..... | 483 | 472 | 458 | 446 | 425 | 5,468 |
| 5. Indemnity only..... | 375,142 | 417,714 | 428,393 | 437,657 | 447,295 | 5,150,486 |
| 6. Aggregate write-ins for other lines of business..... | 655 | 668 | 657 | 671 | 678 | 8,022 |
| 7. Total..... | 1,488,471 | 1,516,080 | 1,509,190 | 1,509,252 | 1,484,879 | 18,053,589 |

DETAILS OF WRITE-INS

| | | | | | | |
|---|-----|-----|-----|-----|-----|-------|
| 0601. | | | | | | |
| 0602. National Stoploss..... | 103 | 103 | 103 | 104 | 105 | 1,245 |
| 0603. Local Stoploss..... | 552 | 565 | 554 | 567 | 573 | 6,777 |
| 0698. Summary of remaining write-ins for Line 6 from overflow page..... | 0 | 0 | 0 | 0 | 0 | 0 |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)..... | 655 | 668 | 657 | 671 | 678 | 8,022 |

EXHIBIT 3A - ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

| Type of Health Care Receivable | Health Care Receivables Collected During the Year | | Heath Care Receivables Accrued as of December 31 of Current Year | | 5 Health Care Receivables in Prior Years (Columns 1 + 3) | 6 Estimated Health Care Receivables Accrued as of December 31 of Prior Year |
|--|--|--|---|--|--|---|
| | 1 On Amounts Accrued Prior to January 1 of Current Year | 2 On Amounts Accrued During the Year | 3 On Amounts Accrued December 31 of Prior Year | 4 On Amounts Accrued During the Year | | |
| 1. Pharmaceutical rebate receivables..... | 70,729,111 | 38,255,994 | | 49,381,496 | 70,729,111 | 62,175,290 |
| 2. Claim overpayment receivables..... | | | | | 0 | |
| 3. Loans and advances to providers..... | | | | | 0 | |
| 4. Capitation arrangement receivables..... | | | | | 0 | |
| 5. Risk sharing receivables..... | | | | | 0 | |
| 6. Other health care receivables..... | 3,086,068 | | 11,030,983 | 34,279,281 | 14,117,051 | 10,828,380 |
| 7. Totals (Lines 1 through 6)..... | 73,815,179 | 38,255,994 | 11,030,983 | 83,660,777 | 84,846,162 | 73,003,670 |

Note that the accrued amounts in Columns 3, 4, and 6 are the total health care receivables, not just the admitted portion.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS
FOR PERIOD ENDED DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Accounting Practices**

Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSMMIC or the "Company") was formed to operate as a nonprofit mutual insurance company under Chapter 58 of the Michigan Insurance Code. On September 6, 2013, BCBSMMIC received authorization to operate as a domestic insurer in the state of Michigan.

On December 31, 2013, Blue Cross Blue Shield of Michigan ("BCBSM") merged with BCBSMMIC, with BCBSMMIC remaining as the surviving company. The assets and liabilities of BCBSM transferred to BCBSMMIC at their carrying values and subscribers' reserves were recharacterized as policyholders' reserves as of the merger date. Under the merger, BCBSMMIC assumed the performance of all contracts and policies of BCBSM that existed as of the December 31, 2013. Hospital, medical, and other health benefits will continue to be provided under contracts with policyholders. BCBSMMIC will continue to conduct business as Blue Cross Blue Shield of Michigan. The governing Board of Directors is the same for both BCBSMMIC and BCBSM.

BCBSM and BCBSMMIC met the definition of a statutory merger under *SSAP 68 – Business Combinations and Goodwill*, and as such, a merger of the two can be described as a "pooling-of-interest" transaction, whereby the balance sheets of two merging entities are added together as if the transaction had occurred on the first day of the earliest year presented.

The merger transitioned BCBSM to a nonprofit mutual insurer. This transition qualifies as an F Reorganization under the Internal Revenue Code (IRC). An F reorganization is defined as a mere change in identity, form or place of organization. Therefore, it does not constitute a material change in legal structure or operations for purposes of federal income taxation and the Company's status as an Alternative Minimum Tax (AMT) taxpayer is preserved.

The Company will be subject to state and local taxes as of January 1, 2014. The Company will pay state premium tax on premiums written at a rate of 1.25 percent, real and personal property taxes will be paid to the municipalities where the property is located, and a 6 percent tax will be assessed on most tangible goods purchases. The impact of these taxes on the consolidated financial statements is not expected to be material.

Beginning in April of 2014, in accordance with the Community Health Investment Agreement (CHIA), that BCBSM signed with the State of Michigan and DIFS, the Company will make annual social mission payments to a nonaffiliated not-for-profit entity for the continued improvement of public health and community health care, including quality, cost, and access for the people of the State of Michigan. Such social mission payments will be based on the prior fiscal year's revenues of the Company and its subsidiaries. The Company will use its best efforts to make aggregate payments of up to \$1,560,000,000 over 18 years. Annual payments will range from \$0 to \$110,000,000 depending on revenue and risk based capital (RBC) levels. At December 31, 2013, the Company recorded a liability of \$100,000,000 for the 2014 payment in accordance with the terms of the CHIA.

The Company's health maintenance organization (HMO) subsidiaries, Blue Care Network of Michigan (BCNM) and Blue Cross Complete of Michigan, provide health care services to

subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. In addition, subsidiaries of Accident Fund Holdings, Inc. (collectively, Accident Fund), a wholly owned subsidiary of the Company, provide workers' compensation insurance, and another Company affiliate, Life Secure Insurance Company (LifeSecure), makes long term care insurance available.

The Michigan Department of Insurance and Financial Services (DIFS), formerly Michigan Office of Financial and Insurance Regulation (OFIR), recognizes only statutory basis accounting practices prescribed or permitted by the state of Michigan for determining and reporting the financial condition and results of operations of an insurance company. DIFS adopted the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* (NAIC SAP) as the basis for its statutory accounting practices. The Director of DIFS has the right to permit other specific practices that may deviate from the prescribed practices. The accompanying statutory basis financial statements have been prepared, in conformity with accounting practices prescribed or permitted by DIFS.

At the direction of DIFS, the Company limited its provision for all premium deficiency reserve (PDR) losses to not exceed two years. NAIC SAP, as prescribed in SSAP No. 54, *Individual and Group Accident and Health Contracts*, requires all reasonable foreseen losses be accrued. If the provision for PDR losses was not limited to two years, statutory surplus would be decreased by \$171,524,000 and \$202,517,000 for the periods ending December 31, 2013 and December 31, 2012, respectively. Additionally, net income would be increased by \$30,993,000 and \$21,609,000, respectively, for the years then ended December 31, 2013 and 2012.

DIFS approved the Company's permitted practice request regarding the determination of the admitted asset attributable to hospital advances pursuant to paragraph 16 of SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*. The permitted practice allows the Company to admit net hospital advances attributable to self-funded contract claims to the extent of the unpaid hospital incurred claims owed by the Company to the hospital. Without the permitted practice, statutory surplus would have decreased by \$103,302,610 and \$79,196,782 as of December 31, 2013 and 2012, respectively. The permitted practice had no impact on net income for the years ended December 31, 2013 and 2012.

A reconciliation of the Company's net income and capital and surplus between DIFS prescribed and permitted practices and NAIC SAP as of December 31, 2013 and 2012 is as follows:

| | 12/31/2013 | 12/31/2012 |
|--|-------------------------|-------------------------|
| Net Income - MI DIFS | \$ (85,941,824) | \$ (2,549,430) |
| <i>MI DIFS Prescribed Practice</i> | | |
| Two-Year Limitation on Premium Deficiency Reserves | 30,993,000 | 21,609,000 |
| <i>MI DIFS Permitted Practice</i> | | |
| Hospital Advances for Self-Funded Claims | - | - |
| Net Income - NAIC SAP | <u>\$ (54,948,824)</u> | <u>\$ 19,059,570</u> |
| Statutory Surplus - MI DIFS | \$ 3,288,723,597 | \$ 3,060,597,267 |
| <i>MI DIFS Prescribed Practice</i> | | |
| Two-Year Limitation on Premium Deficiency Reserves | (171,524,000) | (202,517,000) |
| Deferred Tax Impact of Two-Year PDR limit | 34,305,000 | 40,503,000 |
| Change in Non-admitted Deferred Tax Asset | - | (30,512,000) |
| <i>MI DIFS Permitted Practice</i> | | |
| Hospital Advances for Self-Funded Claims | (103,302,610) | (79,197,000) |
| Statutory Surplus - NAIC SAP | <u>\$ 3,048,201,987</u> | <u>\$ 2,788,874,267</u> |

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory-basis financial statements, in conformity with the Annual Statement instructions and accounting practices prescribed or permitted by DIFS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying Liabilities, Capital and Surplus page of the Annual Statement as aggregate health policy reserves. Premiums received in advance of the billing due date are recorded as premiums received in advance.

Fee revenue primarily consists of administrative fees for services provided under administrative service contracts (ASC), including management of medical services, claims processing, and access to provider networks. Under ASC arrangements, self-funded groups retain the primary underwriting risk of paying claims, and the Company retains an element of credit risk to providers in the event reimbursement is not received from the group; therefore, claims paid by the Company and the corresponding reimbursement of claims, plus administrative fees are netted. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Administrative fees are earned as services are performed and are calculated based on the number of members in a group or the group's claim experience. Since benefit expenses for ASC arrangements are not the responsibility of the Company, claims paid by the Company and the corresponding reimbursement of claims are not reported in the accompanying Statement of Revenue and Expenses. Administrative fee revenues related to ASC arrangements are included as a reduction in operating expenses, cost containment expenses, and other

claim adjustment expenses. Administrative fee revenues of \$856,894,296 and \$887,010,628 related to ASC arrangements are included as offset in operating expenses for the years ended December 31, 2013 and 2012, respectively.

In addition, the Company uses the following accounting policies:

1. **Short-Term Investments and Cash Equivalents** - Short-term investments and cash equivalents are recorded at amortized cost, which approximates market value, and include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents.
2. **Bonds** - Bonds classified as US government, all other government, special revenue and assessment, industrial & miscellaneous or hybrid not backed by other loans that have a NAIC designation of 1 or 2 are stated at amortized cost using the effective interest method. Bonds with a NAIC designation of three or higher are carried at the lower of amortized cost or fair market value.

Bonds classified as special revenue and assessment or industrial & miscellaneous that are loan-backed securities are designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) are reported at amortized cost; securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) are reported at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using a prospective method. Should the present value of anticipated cash flows collected be less than the amortized cost basis, a determination will be made on whether the decline in value is other-than-temporary. If the Company has the ability and intent to hold the security to maturity, but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss.

3. **Common Stocks Unaffiliated** - Common stocks are recorded at fair value. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus.
4. **Preferred Stocks Unaffiliated** - Preferred stocks are stated at book value for NAIC classes one and two and lower of book value or market for NAIC classes three through six. Changes in unrealized appreciation and depreciation in the value of preferred stocks are reflected as direct increases or decreases in surplus.
5. **Mortgage loans on real estate** – Mortgage loans on real estate are stated at carrying value. The Company holds a promissory note, with an annual interest rate of 4%, in the amount of \$4,250,000, receivable in two annual installment payments on or before October 26th of the year following this reporting period.
6. **Loan-backed securities** are stated at amortized cost. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Should the present value of anticipated cash flows collected be less than the amortized cost basis, a determination will be made on whether the decline in value is other than temporary. If the Company has the ability and intent to hold the

security to maturity but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss.

7. Investment in Subsidiaries, Controlled and Affiliated Entities - The Company uses the equity method and follows NAIC SAP in valuing its subsidiaries and affiliates. In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities*, a replacement of SSAP No. 88, the Company reports its investments in subsidiaries inclusive of related goodwill balances. The Company's investment in subsidiaries and related goodwill are included in the common stock line of the Assets page while the investments in affiliates are included in the other invested assets line of the assets page. Included in the Company's common stock balance are the investments in Blue Care Network of Michigan (BCNM), Accident Fund Holdings, Inc. (AFHI), and LifeSecure Holdings, Inc. (LifeSecure). Additional entities over which the Company's own sufficient equity ownership to exert significant influence over operations of the investor include BMH, LLC, Bloom Health and NASCO, LLC.

Goodwill is amortized over 10 years. Goodwill amortization recognized for the years ended December 31, 2013 and December 31, 2012 was \$6,663,900 and \$7,820,129, respectively. The carrying value of these assets is reviewed for impairment at least annually or more frequently should circumstances indicate. The Company completed its annual impairment test as of December 31, 2013 and 2012. As a result of the analysis, the Company recognized impairments for its goodwill in Bloom Heath investment of \$10,406,057 and \$0 in 2013 and 2012, respectively.

The goodwill limitation calculated based on SSAP No. 68 at December 31, 2013 and 2012 was \$295,344,479 and \$285,656,845, respectively. The Company's actual goodwill balance at December 31, 2013 and 2012 was \$0 and \$17,069,957, respectively. There is no goodwill to admit at December 31, 2013. The Company's goodwill balance was fully admitted at December 31, 2012.

As of December 31, 2013 and 2012, the breakdown between goodwill and investments in subsidiaries is shown below.

| | 12/31/2013 | 12/31/2012 |
|---|--------------------------------|--------------------------------|
| Common Stock Investments in Subsidiaries: | | |
| Investment in BCNM ¹ | \$ 1,006,347,774 | \$ 899,163,166 |
| Investment in Accident Fund Holdings, Inc | 684,053,007 | 633,615,170 |
| AFHI goodwill | - | 6,663,900 |
| Investment in LifeSecure | 20,232,450 | 23,771,220 |
| Amount included in common stock | <u>\$ 1,710,633,231</u> | <u>\$ 1,563,213,456</u> |
| Preferred Stock Investment in Affiliates: | | |
| Bloom Health goodwill | - | 10,406,057 |
| Amount included in preferred stock | <u>\$ -</u> | <u>\$ 10,406,057</u> |
| Other Invested Assets: | | |
| AmeriHealth | 156,651,659 | 140,202,247 |
| NASCO | <u>1,747,816</u> | <u>968,557</u> |
| Amount included in subs and affiliates | <u>\$ 158,399,475</u> | <u>\$ 141,170,804</u> |
| Total investments in subs and affiliates | <u><u>\$ 1,869,032,706</u></u> | <u><u>\$ 1,714,790,317</u></u> |
| Summary: | | |
| Total investments excluding goodwill | \$ 1,869,032,706 | \$ 1,697,720,360 |
| Goodwill | - | 17,069,957 |
| Total | <u><u>\$ 1,869,032,706</u></u> | <u><u>\$ 1,714,790,317</u></u> |

¹ Includes investments in BCNM, Blue Care of Michigan Inc, Blue Care Network Medical Malpractice Self-Insurance Trust, Blue Care Network Stop-Loss, and Casualty Self-Insurance Trust, and Blue Cross Complete.

8. Investments in Joint Ventures, Partnerships and Limited Liability Companies - The Company has ownership interests in partnerships and limited liability companies. The Company carries these investments based on the underlying GAAP equity. Such investments are included in other invested assets line of the Assets page. As of December 31, 2013, the Company has no investment in joint ventures, partnerships or limited liability companies that exceed 10% of its net admitted assets.

The accounting treatment of the Company's investment in NASCO, LLC, BMH, LLC and Bloom Health were in accordance with SSAP No. 97 – *Investment in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88.* (Note 6)

9. Derivatives – NOT APPLICABLE

10. Premium Deficiency Reserve - A liability for premium deficiency losses is an actuarial estimate that is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's

method of acquiring, servicing and measuring the profitability of such contracts.

Premium deficiency losses are generally released over to the period that the contract is in a loss position. The Company is in compliance with DIFS prescribed practice for non-profit health care corporations to limit provision for all PDR losses to two years.

11. **Liabilities for Unpaid Claim and Claim Adjustment Expenses and Advances to Providers-** Liabilities for unpaid claims and claims adjustment expenses are actuarial estimates of outstanding claims, including claims incurred but not yet reported (IBNR). The Company estimates the amount of the medical claims IBNR using standard actuarial developmental methodologies based upon historical data including run out patterns, expected medical cost inflation, seasonality patterns and changes in membership, among other things. The Company's IBNR best estimate also includes a provision for adverse deviation, which is an estimate for known environmental factors that are reasonably likely to affect the required level of IBNR reserves. This provision for adverse deviation is intended to capture the potential adverse development from known and special environmental factors such as changes in payment patterns, trends, and benefits versus historical levels, system issues not captured in inventory reports, and / or exceptional situations that require judgmental adjustments in setting the reserves for claims. The Company consistently applies IBNR estimation methodology from period to period. The Company IBNR best estimate is made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. The majority of the IBNR reserve balance held at the end of each year is associated with the most recent months' incurred services because these are the services for which the fewest claims have been paid. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts estimated. Interim hospital advances are reported as advances to providers. Processing expenses related to claims are accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.
12. **Capitalization Policy** – The Company has not modified its capitalization policy from the prior period and meets the requirements of SSAP No. 87, *Capitalization Policy*.
13. **Premium Rebates** – Under the provisions of the Affordable Care Act, the Company is required to provide rebates to policyholders if the coverage does not satisfy a specified medical loss ratio (MLR). Beginning in 2013, the MLR is determined using a 3-year average. In prior years the MLR was determined using annual results. For individual and small group business, if a health insurer does not meet an 80% MLR for the year, it will be required to provide a rebate to the policyholders. The required MLR for large groups is 85%. Premium rebates are reported as reductions to premium revenue. MLR rebates are required to be paid to policyholders by August 1 following the end of the year in which an applicable MLR standard was not met. At December 31, 2013 and 2012, the Company has determined it had no rebate liability as all MLR ratios were above required minimums.
14. **Real Estate** – Real property occupied by the Company is stated at cost, less accumulated depreciation at \$137,912,000 and \$144,023,000 as of December 31, 2013 and 2012, respectively. Depreciation is calculated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings. Depreciation expense was \$10,304,000 and \$10,721,000 for the years ended December 31, 2013 and 2012, respectively. Statutory basis investment income and operating expenses include rent for the Company's occupancy of this property. At December 31, 2013 and 2012, the related rental income and expense recorded on this property totaled \$33,956,972 and \$47,098,000, respectively.

The Company's service center located in Southfield, Michigan, was sold in October 2012 for its carrying value of \$6,250,000.

15. Long-Lived Assets - Long-lived assets held and used by the Company are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets "held for sale" are no longer depreciated. The Company writes down the carrying amount of the long-lived asset to its fair value once the impairment has been determined.
16. Securities Lending Receivables and Payables — In compliance with SSAP No. 91R, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, the Company records a security lending asset and an offsetting security lending payable, for the underlying cash collateral received in security lending transactions, in its statutory basis financial statements.
17. Intangible Assets — The Company carries intangible assets consisting of customer contracts, provider networks, and trademarks resulting from the acquisition of subsidiaries. Under NAIC SAP, these intangible assets are treated as non-admitted assets.
18. Experience Rated Groups — A liability is recognized for experience-rated group contracts as a result of favorable experience based on an actuarial estimate of underwriting gains, which will be returned to groups either as cash refunds or future rate reductions. Under terms of most of the experience-rated group contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received.
19. Employee Benefit Plans — The Company's obligations related to its defined benefit pensions and post-retirement health care and other postretirement defined benefits are estimated using actuarial determined estimates.
20. Medicare Advantage Benefits — The Company provides Medicare eligible beneficiaries with a managed care alternative to traditional Medicare. Medicare Advantage special needs plans provide tailored benefits to Medicare beneficiaries who have chronic diseases and also cover certain dual eligible customers, which represent low-income seniors and persons under age 65 with disabilities who are enrolled in both Medicare and Medicaid plans.

Under this model, there is a potential for the collection of additional premium. However, the adjustment does not occur in the initial year of enrollment, but in the subsequent periods discussed above, after the Company has compiled and submitted medical diagnosis information to the Centers for Medicare & Medicaid Services (CMS). The Company records revenues and a receivable from CMS based on the estimate of the members risk scores which may be adjusted in the following year as a result of an annual settlement with CMS. In 2013 and 2012, the Company recorded prior year risk score revenue adjustments that increased the current year revenue by approximately \$19,692,000 and \$3,878,000, respectively.

Prescription Drug Benefits under Medicare Part D — The Company offers a prescription drug plan to Medicare and dual eligible (Medicare and Medicaid) beneficiaries. Pharmacy benefits under Medicare Part D plans may vary in terms of coverage levels and out-of-pocket costs for beneficiary premiums, deductibles, and coinsurance. However, all Medicare Part D plans must offer either "standard coverage" or its actuarial equivalent (with out-of-pocket threshold and deductible amounts that do not exceed those of standard coverage). These "defined standard" benefits represent the minimum

level of benefits required under law. In addition to defined standard plans, the Company offers other prescription drug plans containing benefits in excess of the standard coverage limits, in many cases for an additional beneficiary premium.

Coverage Gap Discount Program (CGDP) — Members that incur drug costs for branded drugs in the coverage gap are entitled to a 50% discount from the manufacturer. Under the CGDP, The Company receives monthly prospective payments from CMS. These prospective payments provide cash flow to Medicare Part D sponsors for advancing the gap discounts at the point of sale. On a quarterly basis, CMS invoices the manufacturers for discounts provided by the Company. Manufacturers remit payments for invoiced amounts directly to the Company. The prospective payments made to the Company are reduced by the discount amounts invoiced to manufacturers. CGDP advance payments are recorded as other liabilities in the Liabilities, Capital and Surplus. Receivables are set up for manufacturer invoiced amounts. Manufacturer payments reduce the receivable as payments are received. After the end of the contract year, during Medicare Part D Payment reconciliation for the CGDP, CMS will perform a cost based reconciliation to ensure the Company is paid for gap discounts advanced at the point of sale.

The CMS premium, the member premium, and the low-income premium subsidy represent payments for the Company's insurance risk coverage and, therefore, are recorded as premium revenues in the Statement of Revenue and Expenses. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Premium payments received in advance of the applicable service period are recorded as unearned premiums.

Catastrophic reinsurance subsidy and the low-income member cost sharing subsidies represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not considered premium revenue, but are accounted as ASC revenue when the corresponding claims are paid. The reimbursement is recorded as net receivables and the outstanding advance is recorded as other liabilities in the Liabilities, Capital and Surplus.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred and are recognized in medical costs and operating costs, respectively, in the Statement of Revenue and Expenses. Pharmacy benefit costs are recognized net of rebates. The Company has subcontracted third party vendors for certain membership enrollment and pharmacy claims administration.

21. Industry Concentration - The Company conducts business within the state of Michigan. A significant portion of the Company's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from the significant customers in this industry are \$102,896,000 and \$76,010,000 at December 31, 2013 and 2012, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Company. The Company held cash advances from these customers of \$10,685,000 and \$9,000,000 at December 31, 2013 and 2012, respectively, to partially offset these receivables. Under an ASC arrangement, the group sponsor retains the primary financial responsibility for the underwriting risk of its employees. The Company retains an element of credit risk to providers in the event reimbursement is not received from the plan sponsor. In addition, the Company holds investments in these customers' equity securities, corporate bonds, commercial paper, and medium-term notes with a

total fair value of \$26,252,000 and \$7,689,000 at December 31, 2013 and 2012, respectively.

22. Michigan Claims Tax – The Company bears the inherent credit risk of uncollectibility of the tax from customers and therefore records the tax under the gross method, whereby claims taxes collected and paid are recorded as revenue and expense, respectively. The claims tax revenue amounts collected are included in aggregate write-ins for other health related revenues while the claims tax expense are included in the general administrative expenses line in the statement of revenues and expenses.
23. Income Tax — Income tax is comprised of current and deferred tax expense. Income tax is recognized in the statement of revenue and expenses except to the extent that it relates to items recognized directly within surplus. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The Company's provision for income taxes and deferred tax assets and liabilities reflect the Company's assessment of estimated future taxes to be paid on items in the statutory basis financial statements.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted by the reporting date. Under current tax law, the Company is subject to a 20% Alternative Minimum Tax (AMT) rate. Given the preference items afforded Blue Cross and Blue Shield organizations, management believes it is likely to remain an AMT taxpayer. The deferred tax assets are recorded at the regular corporate tax rate of 35% and a valuation allowance has been established for the difference between the value of the asset at the regular tax rate and its likely value at the AMT rate.

The Company currently recognizes deferred tax assets for AMT credits, accrued expenses associated with pension and post retirement benefits, premium deficiency reserves, and other deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods when the deferred tax assets become deductible in the tax return. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Deferred tax liabilities include unrealized gains on investments and depreciation and amortization.

2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS – None
3. BUSINESS COMBINATIONS – NOT APPLICABLE
4. DISCONTINUED OPERATIONS – NOT APPLICABLE
5. INVESTMENTS

- A. Mortgage Loans – The Company's service center located in Southfield, Michigan, was sold in October 2012 for its carrying value of \$6,250,000. The Company holds a promissory note, with an annual interest rate of 4%, in the amount of \$4,250,000,

receivable in two annual installment payments on or before October 26th of the year following this reporting period.

B. Debt Restructuring – NOT APPLICABLE

C. Reverse Mortgages – NOT APPLICABLE

D. Loan-Backed Securities –

- 1) Loan-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively) are reported at amortized cost; securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method.

2)

| | 1 | 2 | 3 |
|---|--|--|-------------------|
| | Amortized Cost Basis Before Other- Than Temporary- Impairment | Other-than-Temporary Impairment Recognized in Loss | Fair Value 1-2 |
| OTTI recognized 1st Quarter | | | |
| a. Intent to sell | \$ - | \$ - | \$ - |
| Intent or lack of ability to retain the investment in the security for a period of time sufficient to | | | |
| b. recover the amortized cost basis | \$ - | \$ - | \$ - |
| c. Total 1st Quarter | \$ - | \$ - | \$ - |
| OTTI recognized 2nd Quarter | | | |
| d. Intent to sell | \$ - | \$ - | \$ - |
| Intent or lack of ability to retain the investment in the security for a period of time sufficient to | | | |
| e. recover the amortized cost basis | \$ 851,344.09 | \$ 17,202.70 | \$ 834,141.39 |
| f. Total 2nd Quarter | \$ 851,344.09 | \$ 17,202.70 | \$ 834,141.39 |
| OTTI recognized 3rd Quarter | | | |
| g. Intent to sell | \$ - | \$ - | \$ - |
| Intent or lack of ability to retain the investment in the security for a period of time sufficient to | | | |
| h. recover the amortized cost basis | \$ 211,148.73 | \$ 1,913.73 | \$ 209,235.00 |
| i. Total 3rd Quarter | \$ 211,148.73 | \$ 1,913.73 | \$ 209,235.00 |
| OTTI recognized 4th Quarter | | | |
| j. Intent to sell | \$ - | \$ - | \$ - |
| Intent or lack of ability to retain the investment in the security for a period of time sufficient to | | | |
| k. recover the amortized cost basis | \$ 564,153,281.74 | \$ 562,776,168.70 | \$ 1,377,113.04 |
| l. Total 4th Quarter | \$ 564,153,281.74 | \$ 562,776,168.70 | \$ 1,377,113.04 |
| m. Annual Aggregate Total | \$ 565,215,774.56 | \$ 562,795,285.13 | \$ 2,420,489.43 |

3)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|-----------|--|---------------------------------------|--|--|----------------------------|--|
| CUSIP | Book/Adjust Carrying Value Amortized Cost Before Current Period OTTI | Present Value of Projected Cash Flows | Recognized Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of OTTI | Date of Financial Statement Where Reported |
| 023650AH7 | 172,113 | 163,491 | 8,621 | 163,491 | 163,491 | 06.30.2013 |
| 210795QD5 | 647,203 | 639,450 | 7,753 | 639,450 | 639,450 | 06.30.2013 |
| 90345WAE4 | 32,028 | 31,200 | 828 | 31,200 | 31,200 | 06.30.2013 |
| 90345WAE4 | 31,149 | 30,675 | 474 | 30,675 | 30,675 | 09.30.2013 |
| 90931QAA5 | 180,000 | 178,560 | 1,440 | 178,560 | 178,560 | 09.30.2013 |
| 12626GAF0 | 14,820,894 | 14,698,138 | 122,757 | 14,698,138 | 14,698,138 | 12.31.2013 |
| 12630BBA5 | 25,798,102 | 25,641,100 | 157,002 | 25,641,100 | 25,641,100 | 12.31.2013 |
| 3128M9S45 | 21,259,004 | 21,249,404 | 9,600 | 21,249,404 | 21,249,404 | 12.31.2013 |
| 3128MJTE0 | 7,264,435 | 7,200,916 | 63,519 | 7,200,916 | 7,200,916 | 12.31.2013 |
| 3128MJTF7 | 16,501,240 | 16,346,288 | 154,952 | 16,346,288 | 16,346,288 | 12.31.2013 |
| 3128MJTJ9 | 21,282,265 | 21,082,277 | 199,989 | 21,082,277 | 21,082,277 | 12.31.2013 |
| 3128MMRC9 | 5,820,389 | 5,811,313 | 9,077 | 5,811,313 | 5,811,313 | 12.31.2013 |
| 3128MMRL9 | 70,449,290 | 70,130,825 | 318,465 | 70,130,825 | 70,130,825 | 12.31.2013 |
| 31292SBS8 | 14,330,918 | 14,195,088 | 135,830 | 14,195,088 | 14,195,088 | 12.31.2013 |
| 31307EFB5 | 35,472,303 | 35,429,741 | 42,562 | 35,429,741 | 35,429,741 | 12.31.2013 |
| 31307EMT8 | 33,117,662 | 33,071,382 | 46,279 | 33,071,382 | 33,071,382 | 12.31.2013 |
| 31307EMU5 | 32,690,496 | 32,640,452 | 50,044 | 32,640,452 | 32,640,452 | 12.31.2013 |
| 31307FGX3 | 33,664,165 | 33,412,855 | 251,310 | 33,412,855 | 33,412,855 | 12.31.2013 |
| 3132GFAD9 | 40,842,206 | 40,806,232 | 35,974 | 40,806,232 | 40,806,232 | 12.31.2013 |
| 3132JN6A0 | 9,854,517 | 9,757,709 | 96,808 | 9,757,709 | 9,757,709 | 12.31.2013 |
| 3132JNSB4 | 2,026,164 | 2,003,464 | 22,700 | 2,003,464 | 2,003,464 | 12.31.2013 |
| 3132JNYY7 | 34,313,846 | 34,286,781 | 27,065 | 34,286,781 | 34,286,781 | 12.31.2013 |
| 3132JPGZ9 | 3,927,927 | 3,913,229 | 14,698 | 3,913,229 | 3,913,229 | 12.31.2013 |
| 3132JPK50 | 5,280,471 | 5,235,951 | 44,520 | 5,235,951 | 5,235,951 | 12.31.2013 |
| 3132JPN73 | 9,381,240 | 9,294,093 | 87,147 | 9,294,093 | 9,294,093 | 12.31.2013 |
| 3132JPSF0 | 6,434,597 | 6,376,024 | 58,573 | 6,376,024 | 6,376,024 | 12.31.2013 |
| 3132JQD80 | 7,143,797 | 7,086,070 | 57,727 | 7,086,070 | 7,086,070 | 12.31.2013 |
| 3132JQGY0 | 5,201,686 | 5,158,825 | 42,861 | 5,158,825 | 5,158,825 | 12.31.2013 |
| 3132KELZ6 | 41,721,923 | 41,693,501 | 28,422 | 41,693,501 | 41,693,501 | 12.31.2013 |
| 46640NAE8 | 18,363,585 | 18,220,381 | 143,204 | 18,220,381 | 18,220,381 | 12.31.2013 |
| 46641BAD5 | 31,862,305 | 31,682,930 | 179,375 | 31,682,930 | 31,682,930 | 12.31.2013 |
| 96221QAE3 | 15,327,854 | 15,326,940 | 914 | 15,326,940 | 15,326,940 | 12.31.2013 |
| | | | | | | |
| Total | 565,215,775 | 562,795,285 | 2,420,489 | 562,795,285 | 562,795,285 | |

4) NOT APPLICABLE

E. Repurchase Agreements and/or Securities Lending Transactions

1) Repurchase Agreements – NOT APPLICABLE

2) The Company has no pledged assets under its security lending transaction agreement.

3) The Company, in the normal course of business, enters into a security lending agreement with a custodian bank. Under this agreement, the Company requires collateral approximating at least 102% of the value of the securities loaned. The Company receives cash and non-cash collateral. The cash collateral is reinvested by the custodian bank in commingled trusts. The non-cash collateral is maintained in a separate account until the transaction is completed. The security lending agreement is primarily overnight in nature and subject to renewal or termination.

At December 31, 2013, for its loaned securities of \$12,405,215, the Company received cash collateral of \$12,673,388. The fair value of the cash collateral received is \$12,572,328. During 2013, there were no non-cash collateral transactions.

| | Amortized Cost | Fair Value |
|------------------------------|-----------------------|----------------------|
| Securities Lending | | |
| a) Open | \$ 12,673,388 | \$ 12,572,328 |
| b) 30 Days or Less | | |
| c) 31 to 60 Days | | |
| d) 61 to 90 Days | | |
| e) 91 to 120 Days | | |
| f) 121 to 180 Days | | |
| g) 181 to 365 Days | | |
| h) 1 to 2 Years | | |
| i) 2 to 3 Years | | |
| j) Greater Than 3 Years | | |
| k) Sub-Total | <u>\$ 12,673,388</u> | <u>\$ 12,572,328</u> |
| l) Securities Received | <u>-</u> | <u>-</u> |
| m) Total Collateral Received | <u>\$ 12,673,388</u> | <u>\$ 12,572,328</u> |

F. Real Estate – NOT APPLICABLE

G. Low-Income Housing Tax Credits – NOT APPLICABLE

H. Restricted Assets

| Restricted Asset Category | Total Gross Restricted from Current Year | Total Gross Restricted from Prior Year | Increase/D ecrease | Total Current Year Admitted Restricted | Percentage Gross Restricted to Total Assets | Percentage Admitted Restricted to Total Admitted Assets |
|--|--|--|--------------------|--|---|---|
| On deposit with State of MI | \$ 299,982 | \$ - | N/A | \$ 299,982 | 0.004% | 0.004% |
| Pledged as collateral not captured in other categories | \$ 1,333,686,934 | \$ - | N/A | \$ 1,333,686,934 | 16.548% | 17.287% |
| Total Restricted Assets | \$ 1,333,986,916 | \$ - | N/A | \$ 1,333,986,916 | 16.552% | 17.290% |

I. Other Restricted Assets – NOT APPLICABLE

J. Total Restricted Assets – NOT APPLICABLE

6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

A. The Company has no investment in joint ventures, partnerships or limited liability companies that exceed 10% of its net admitted assets.

- B. In 2012, the Company's ownership in Bloom Health was reduced from 28.7% to 26.05% interest. Bloom is an early stage company that provides solutions to enable employers to move to a defined contribution health care and benefits model. Products include account administration for employers and trusts, and personal benefit shopping tools for employees and members to select and interact with benefit packages. In June 2013, due to the continued net losses from operations, the Company's investment in Bloom Health of \$10,406,000 was written off.

At December 31, 2012, the Company recognized approximately \$802,000 of impairment write-down for its investment in joint ventures, partnerships and limited liability companies.

7. INVESTMENT INCOME

- A. Investment income due and accrued with amounts that are over 90 days past due will be non-admitted.
- B. Investment income receivable non-admitted at December 31, 2013 and 2012 was \$0 and \$26,655, respectively.

In accordance with the Company's impairment policy, securities that have a fair market value that is below amortized cost are considered impaired and are analyzed and reviewed by management to determine if the impairment is other-than-temporary. Factors taken into account for each individual security include the length of time and extent to which the fair value has been less than the carrying value, the underlying financial condition and the specific circumstances that are impacting the issuer in the marketplace.

For internally managed debt securities, other-than-temporary impairment (OTTI) is present when a credit loss is determined to exist for the underlying security or the Company has the intent to sell the security before anticipated recovery of the amortized cost of the security or the Company has intent to hold and anticipates that the security will not recover. For loan-backed securities, if the Company has the ability and intent to hold the security to maturity, but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss. Interest-related impairments are not recognized as an impairment loss. Specific criteria for evaluating debt securities for impairment include the length of time and extent to which the fair market value was below carrying value, NAIC ratings, interest-coverage ratios, and ratings outlook. For equity securities that are internally managed, the Company evaluates whether it has the intent and ability to hold the security using a five-year rolling average to determine if there will be a full recovery in value. For internally managed investments with market values below cost that were determined not to have OTTI, the Company regularly monitors the existing unrealized losses and evaluates potential impairments to determine if OTTI needs to be recorded. For investments managed by outside investment managers, OTTI is presumed to exist when market values are below cost because the Company cannot assert the "intent and ability to hold to recovery."

For investments managed by outside investment managers, OTTI is presumed to exist when market values are below cost because the Company cannot assert the "intent and ability to hold to recovery." As of December 31, 2013 and 2012, the write-down of OTTI losses to fair market value for debt securities was approximately \$25,763,000 and \$12,483,000, respectively. The write down of OTTI losses for equity securities for the periods ended December 31, 2013 and 2012 was approximately \$10,089,000 and \$14,972,000, respectively.

8. DERIVATIVE INSTRUMENTS – NOT APPLICABLE**9. INCOME TAXES**

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

| 1. | Description | 12/31/2013 | | | 12/31/2012 | | |
|-----|---|-----------------|----------------|---------------------------|-----------------|----------------|---------------------------|
| | | (1) Ordinary | (2) Capital | (3) (Col 1+2) Total | (4) Ordinary | (5) Capital | (6) (Col 4+5) Total |
| (a) | Gross deferred tax assets | \$ 263,901,427 | \$ - | \$ 263,901,427 | \$ 173,722,346 | \$ - | \$ 173,722,346 |
| (b) | Statutory valuation allowance | - | - | - | - | - | - |
| (c) | Adjusted gross deferred tax assets (1a-1b) | 263,901,427 | - | 263,901,427 | 173,722,346 | - | 173,722,346 |
| (d) | Deferred Tax Assets Nonadmitted | (15,482,862) | - | (15,482,862) | - | - | - |
| (e) | Subtotal Net Admitted Deferred Tax Asset (1c-1d) | 248,418,565 | - | 248,418,565 | 173,722,346 | - | 173,722,346 |
| (f) | Deferred Tax Liabilities | (108,930,653) | - | (108,930,653) | (73,867,102) | - | (73,867,102) |
| (g) | Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) (1c-1d) | \$ 139,487,912 | \$ - | \$ 139,487,912 | \$ 99,855,244 | \$ - | \$ 99,855,244 |

| 2. | Admission Calculation Components SSAP No. 101 | 12/31/2013 | | | 12/31/2012 | | |
|-----|---|-----------------|----------------|---------------------------|-----------------|----------------|---------------------------|
| | | (1) Ordinary | (2) Capital | (3) (Col 1+2) Total | (4) Ordinary | (5) Capital | (6) (Col 4+5) Total |
| (a) | Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks | - | - | - | - | - | - |
| (b) | Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) Above) After Application of the Threshold Limitation. (The Lesser of 2(b)1 and 2(b)2 Below) | 139,487,912 | - | 139,487,912 | 109,845,614 | - | 109,845,614 |
| 1. | Adjusted Gross Deferred Tax Assets Expected To Be Realized Following The Balance Sheet Date | 139,487,912 | - | 139,487,912 | 109,845,614 | - | 109,845,614 |
| 2. | Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold | XXX | XXX | XXX | XXX | XXX | XXX |
| (c) | Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets from 2(a) and 2(b) Above) Offset by Gross Deferred Tax Liabilities | 108,930,653 | - | 108,930,653 | 63,876,732 | - | 63,876,732 |
| (d) | Deferred Tax Assets Admitted as the result of application of SSAP No. 101 | | | | | | |
| | Total (2(a) + 2(b) + 2(c)) | \$ 248,418,565 | \$ - | \$ 248,418,565 | \$ 173,722,346 | \$ - | \$ 173,722,346 |

1.

| | | Change | | |
|-----|---|---------------|---------|--------------------|
| | | (7) | (8) | (9) |
| | | Ordinary | Capital | (Col 7+8) Total |
| (a) | Gross deferred tax assets | \$ 90,179,081 | \$ - | \$ 90,179,081 |
| (b) | Statutory valuation allowance | - | - | - |
| (c) | Adjusted gross deferred tax assets (1a-1b) | 90,179,081 | - | 90,179,081 |
| (d) | Deferred Tax Assets Nonadmitted | (15,482,862) | - | (15,482,862) |
| (e) | Subtotal Net Admitted Deferred Tax Asset (1c-1d) | 74,696,219 | - | 74,696,219 |
| (f) | Deferred Tax Liabilities | (35,063,551) | - | (35,063,551) |
| (g) | Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) (1c-1d) | \$ 39,632,668 | \$ - | \$ 39,632,668 |

2.

| | | Change | | |
|---|---|---------------|---------|--------------------|
| | | (7) | (8) | (9) |
| | | Ordinary | Capital | (Col 8+9) Total |
| Admission Calculation Components SSAP No. 101 | | | | |
| (a) | Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks | \$ - | \$ - | \$ - |
| (b) | Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) Above) After Application of the Threshold Limitation. (The Lesser of 2(b)1 and 2(b)2 Below) | 29,642,298 | - | 29,642,298 |
| | 1. Adjusted Gross Deferred Tax Assets Expected To Be Realized Following The Balance Sheet Date | 29,642,298 | - | 29,642,298 |
| | 2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold | XXX | XXX | XXX |
| (c) | Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets from 2(a) and 2(b) Above) Offset by Gross Deferred Tax Liabilities | 45,053,921 | - | 45,053,921 |
| (d) | Deferred Tax Assets Admitted as the result of application of SSAP No. 101 | | | |
| | Total (2(a) + 2(b) + 2(c)) | \$ 74,696,219 | \$ - | \$ 74,696,219 |

3.**2013****2012**

| | | | |
|-----|--|-------------------------|-------------------------|
| (a) | Ratio percentage used to determine recovery period and threshold limitation amount | 15% | 15% |
| (b) | Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)(2) above | <u>\$ 3,149,235,682</u> | <u>\$ 2,960,742,016</u> |

4.

Impact of Tax-Planning Strategies

Determination of adjusted gross
deferred tax assets and net
admitted deferred tax assets by
character as a percentage

Adjusted gross DTAs amount
from note 9A1(c)

Percentage of adjusted gross
DTAs by tax character

attributable to the impact
of tax planning strategies
net admitted adjusted gross
DTAs amount from note

9A1(e)

Percentage of net admitted
gross DTAs by tax character
admitted because of the

impact of tax planning
strategies

| December 31, 2013 | | December 31, 2012 | | Change | |
|-------------------|---------|-------------------|---------|--------------------|-------------------|
| (1) | (2) | (3) | (4) | (5) | (6) |
| Ordinary | Capital | Ordinary | Capital | (Col 1-3) Ordinary | (Col 2-4) Capital |

139,487,912 - 109,845,614 - 29,642,298 -

N/A N/A N/A N/A N/A N/A

N/A N/A N/A N/A N/A N/A

Does the company's tax-planning strategies include the use of reinsurance?

Yes _____ No X

- B. The Company has met the necessary Risk-Based Capital levels to be able to admit the increased amount of deferred tax assets under SSAP No. 101 – A Replacement of SSAP No. 10R and SSAP No.10. In 2013 the DTA admitted asset thresholds of SSAP No. 101 paragraph 9A(2)b2 were exceeded therefore the increase in admitted DTA under SSAP No. 101 paragraph 9A(2)b1 for 2013 was \$139,487,912. In 2012 the DTA admitted asset thresholds of SSAP No.101 paragraph 9A(2)b2 were exceeded and the increase in admitted DTA under SSAP No.101 paragraph 9A(2)b1 for 2012 was \$109,845,614.

In 2013, there are no temporary differences for which a DTL has not been established.

- C. Current income taxes incurred consist of the following major components:

| | (1) | (2) | (3) |
|--|------------------------|------------------------|------------------------|
| | 12/31/2013 | 12/31/2012 | (Col 1-2) Change |
| 1. Current Income Tax | | | |
| (a) Federal | \$ (21,564,534) | \$ (16,550,957) | \$ (5,013,577) |
| (b) Foreign | - | - | - |
| (c) Subtotal | <u>\$ (21,564,534)</u> | <u>\$ (16,550,957)</u> | <u>\$ (5,013,577)</u> |
| (d) Federal income tax on net capital gains | 21,394,494 | 30,403,783 | \$ (9,009,289) |
| (e) Utilization of capital loss carry-forwards | | | |
| (f) Other | <u>(3,869,049)</u> | <u>20,299,638</u> | <u>(24,168,687)</u> |
| (g) Federal and foreign income taxes incurred | <u>\$ (4,039,089)</u> | <u>\$ 34,152,464</u> | <u>\$ (38,191,553)</u> |

The change in net deferred income taxes is composed of the following (this analysis is exclusive of non-admitted assets as the change in non-admitted assets is reported

separately from the change in net deferred income taxes in the surplus section of the annual statement):

| | | | | |
|------|---|----------------|----------------|---------------|
| 2. | Deferred Tax Assets: | | | |
| (a) | Ordinary | | | |
| (1) | Discounting of unpaid losses | \$ 10,065,955 | \$ 1,210,159 | \$ 8,855,796 |
| (2) | Unearned premium reserve | - | - | - |
| (3) | Policyholder reserves | - | - | - |
| (4) | Investments | 21,067,085 | - | 21,067,085 |
| (5) | Deferred acquisition costs | - | - | - |
| (6) | Policyholder dividends accrual | - | - | - |
| (7) | Fixed assets | - | - | - |
| (8) | Compensation and benefits accrual | - | - | - |
| (9) | Pension accrual | 125,911,927 | 76,476,910 | 49,435,017 |
| (10) | Receivables – nonadmitted | - | - | - |
| (11) | Net operating loss carry-forward | - | - | - |
| (12) | Tax credit carry-forward | - | - | - |
| (13) | Other (including items <5% of total ordinary tax assets) | 106,856,460 | 96,035,277 | 10,821,183 |
| | (99) Subtotal | \$ 263,901,427 | \$ 173,722,346 | \$ 90,179,081 |
| (b) | Statutory valuation allowance adjustment | | | |
| (c) | Nonadmitted | 15,482,862 | - | 15,482,862 |
| (d) | Admitted ordinary deferred tax assets (2a99 – 2b – 2c) | \$ 248,418,565 | \$ 173,722,346 | \$ 74,696,219 |
| (e) | Capital: | | | |
| (1) | Investments | - | - | - |
| (2) | Net capital loss carry-forward | - | - | - |
| (3) | Real estate | - | - | - |
| (4) | Other (including items <5% of total capital tax assets) | - | - | - |
| | (99) Subtotal | \$ - | \$ - | \$ - |
| (f) | Statutory valuation allowance adjustment | | | |
| (g) | Nonadmitted | | | |
| (h) | Admitted capital deferred tax assets (2e99 – 2f – 2g) | \$ - | \$ - | \$ - |
| (i) | Admitted deferred tax assets (2d + 2h) | \$ 248,418,565 | \$ 173,722,346 | \$ 74,696,219 |
| 3. | Deferred Tax Liabilities: | | | |
| (a) | Ordinary | | | |
| (1) | Investments | \$ 51,714,271 | \$ 20,161,579 | \$ 31,552,692 |
| (2) | Fixed assets | 30,806,758 | 34,127,586 | (3,320,828) |
| (3) | Deferred and uncollected premium | - | - | - |
| (4) | Policyholder reserves | - | - | - |
| (5) | Other (including items <5% of total ordinary tax liabilities) | 26,409,624 | 19,577,937 | 6,831,687 |
| | (99) Subtotal | \$ 108,930,653 | \$ 73,867,102 | \$ 35,063,551 |
| (b) | Capital: | | | |
| (1) | Investments | - | - | - |
| (2) | Real estate | - | - | - |
| (3) | Other (including items <5% of total capital tax liabilities) | - | - | - |
| | (99) Subtotal | \$ - | \$ - | \$ - |
| (c) | Deferred tax liabilities (3a99 + 3b99) | \$ 108,930,653 | \$ 73,867,102 | \$ 35,063,551 |
| 4. | Net deferred tax assets/liabilities (2i – 3c) | \$ 139,487,912 | \$ 99,855,244 | \$ 39,632,668 |

- D. The actual effective tax rate differs from the effective Alternative Minimum Tax (AMT) rate of 20 % primarily due to the tax impact recognized on the tax adjustments attributable to prior years.
- E. Under the current tax law, the Company is afforded a special deduction under IRC Section 833(b) for claims and administrative expenses, which typically reduces taxable income to zero on an annual basis. However, under the Alternative Minimum Tax (AMT) structure, this deduction is a tax preference item, thereby subjecting the Corporation to the 20% AMT rate. At December 31, 2013 and 2012, the Corporation has recorded a deferred tax asset of \$ 584,918,298 and \$584,917,732, respectively representing the amount of the AMT credit carryforward, which may be used to reduce its regular tax liability, in the event the Company's regular tax liability is greater than its AMT. However, even though the credit can be carried forward indefinitely and will not expire, the credit is not carried as a deferred tax asset, because no utilization of the credit can occur unless either: a) the Company's tax preferences as a Blue Cross and Blue Shield organization are legislatively repealed; or b) the Company fails the medical loss ratio under IRC §833(c)(5).
- F. The Company and its taxable subsidiaries AFHI and LifeSecure file a consolidated federal income tax return. Each taxable subsidiary is responsible for its own federal tax liability and the Company has tax sharing agreements in place with AFHI and LifeSecure. At December 31, 2013, certain tax years remain open to examination by the IRS. During the year ended December 31, 2013, the Company settled the audit of its 2006 through 2009 federal tax returns. This resulted in a tax benefit of \$4,087,569. In addition, during the year ended December 31, 2013 the corporation recorded a benefit of \$1,025,644 for 2010-2011 agreed audit adjustments.
- G. Under SSAP No. 5R, the Company is required to evaluate all tax positions as to their relative uncertainty and certainty. The Corporation recognizes accrued interest and penalties related to uncertain income tax positions in federal income tax expense. For the years ended December 31, 2013, and 2012, \$0, and \$9,538,824, respectively, were accrued for interest and penalties with the cumulative accrued balance totaling \$0 at December 31, 2013, and \$ 9,538,824 at December 31, 2012. The Company does not expect there to be a significant change in uncertain tax positions within the next 12 months.

SSAP No. 101 normally allows the Company to recognize gross DTA in excess of gross DTL only to the extent that the gross DTA in excess of gross DTL are expected to be realized within three years of the balance sheet date, not to exceed 15% of the Company's adjusted capital and surplus. In applying the criteria under SSAP No. 101 to determine its gross adjusted deferred tax assets of \$263,901,427, and net admitted tax assets of \$154,970,774 in 2013, the Company did not utilize any explicit tax planning strategies in 2013 or 2012. Likewise, in applying the criteria of SSAP No. 101 to determine its gross adjusted deferred tax assets of \$173,722,346 and net admitted tax assets of \$99,855,244 in 2012, the Company did not utilize any explicit tax planning strategies in 2012.

At December 31, 2013 and 2012, the Corporation had unused federal net operating loss carryforward amounts of approximately \$185,000,000 for both years, respectively, which can be used to offset future tax liabilities. The loss carry forwards begin to expire in 2027.

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code at 12/31/2013.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES AND OTHER RELATED PARTIES

The Company has agreements with each of its wholly owned subsidiaries under which both or either parties may provide services to each other. The agreements provide for monthly payments and a year-end settlement based on actual cost of services performed. All related-party receivable and payable balances are recorded as either amounts due to or from subsidiaries and affiliates.

Also, the Company has service contracts with its affiliates, NASCO, LLC, Bloom Health, and BMH, LLC. NASCO provides Blue plans with the ability to support national accounts' benefit administration in a centralized, uniform manner. As such, the Company's operating expense includes charges for system fee payments to NASCO. Reimbursements received under ASC group arrangements are recorded as a recovery of the fee through operating expense.

Bloom Health - an early stage company that provides solutions to enable employers to move to a defined contribution health care and benefits model. Products include account administration for employers and trusts, and personal benefit shopping tools for employees and members to select and interact with benefit packages.

The Company partnered with Bloom Health to assist in the development of a platform for enhanced health plan functionality. This includes a decision support tool and integrating the Company's current account administrator, and the development of potential single point for underwriting, consumer analytics and other insurance and financial products. During 2013 and 2012, the Company recorded \$458,000 and \$1,900,000 for fees paid to Bloom Health for administrative and development costs. As well in 2013, the Corporation entered into an agreement with Bloom Health for the prepayment of \$12,000,000 in service fees.

BMH, LLC - The Company's strategic investment in BMH is aligned with its initiatives to grow the Medicaid portion of the business. During 2013, the Company incurred \$7,777,000 for administrative service fees paid to BMH. There were no material transactions between the Corporation and BMH in 2012.

All inter-company receivables are primarily due to management and administrative services performed by the Company. In addition, as described in Note 12, an intercompany receivable in the amount of \$72,152,782 was established for postretirement costs that will be paid to the Company by BCN of Michigan (BCNM) over a 20-year period as a result of the BCNM employees becoming the Company employees effective January 1, 2010. The outstanding balance of this intercompany receivable as of December 31, 2013 and 2012, is \$54,114,587 and \$57,722,225, respectively.

All inter-company payables are primarily attributable to hospital settlement recoveries attributable to BCNM of \$38,400,573 and \$47,603,970, in 2013, and 2012, respectively. Under this agreement, BCNM's portion of underpayments due to hospitals or overpayment recoveries from hospitals will be established as a receivable or payable by the Company as applicable.

The Company also performs various claims processing and management services for its subsidiaries and affiliates. During 2013 and 2012, these services performed for its subsidiaries and affiliates totaled \$1,303,517,447 and \$956,779,769 respectively. No dividends were declared from the subsidiaries in 2013 or 2012.

The Company has provided the following guarantees for its subsidiaries:

BCNM - In accordance with the Blue Cross Blue Shield Association guidelines, the Company guarantees to the full extent of its assets, all of the contractual and financial obligations of BCNM and Blue Care of Michigan, Inc. (BCMI), and their subsidiaries, to its customers. The total liability reported on BCNM's statutory basis financial statements in accordance with DIFS was \$593,840,000 and \$675,341,000 as of December 31, 2013 and 2012, respectively. As of December 31, 2013, BCNM and BCMI minimum capital threshold is approximately \$177,000,000. BCNM and BCMI statutory surplus is approximately \$1,006,348,000 as of December 31, 2013.

LifeSecure - The Company shall take all actions reasonably necessary to ensure that LifeSecure is in compliance with the states of Rhode Island, California, and New Jersey's statutory requirements, including maintaining a level of capital and surplus greater than the RBC at 250% authorized control level and not less than the statutory minimum capital and surplus required by the applicable provisions of the insurance codes of the respective states. At December 31, 2013, LifeSecure minimum capital and surplus threshold based on the above requirement is approximately \$10,200,000. LifeSecure statutory capital and surplus is approximately \$20,232,000 as of December 31, 2013. In addition, the Company executed a financial guaranty agreement with American Fidelity Assurance Company (AFA) to facilitate a reinsurance transaction between LifeSecure and AFA. The Company's maximum guaranty represents the total benefit liabilities under the reinsurance contract, which approximates \$71,847,000 as of December 31, 2013.

EIN - As part of the lease transaction with EIN, the Company has executed a financial guarantee with the lessor in the event that EIN fails to pay any amounts due and owing under the lease. The approximate net present value of the rent obligation for the 15-year lease-term is \$69,086,000.

BMH, LLC – Please refer to Footnote No.14 for detailed disclosure.

11. DEBT

- A. The carrying value of the outstanding loans as of December 31, 2013 and 2012 is as follows:

| | 12/31/2013 | 12/31/2012 |
|---|-------------------------|-------------------------|
| Federal Home Loan Bank of Indianapolis (FHLBI): 0.19%, due 2016 | \$ 46,000,000 | \$ 46,000,000 |
| FHLBI: 0.34% - 3.40%, due 2013 - 2018 (includes accrued interest) | 1,127,176,606 | 992,911,591 |
| Bank of Nevada secured debt: 4.73% due 2013 | | 8,349,958 |
| RBS Asset secured debt: 3.46% - 4.65%, due 2013 - 2014 | <u>4,151,857</u> | <u>14,695,212</u> |
| Total outstanding debt | <u>\$ 1,177,328,463</u> | <u>\$ 1,061,956,761</u> |

Total debt interest expense as of December 31, 2013 and 2012 was \$18,763,073 and \$19,317,716 respectively.

As of December 31, 2013 and 2012, the carrying value and fair value of the outstanding debt was \$1,177,328,463 and \$1,061,956,961, respectively. The Company used a discounted cash flow method in determining fair value of outstanding debt. The Company estimated fair value based on its own assumptions about future cash flows and appropriate adjusted discount factors. The use of assumptions constitutes a level 3

categorization for fair market value determination due to the use of significant unobservable inputs used in determining the fair market value.

B. Federal Home Loan Agreements –

- 1) The Company is a member of the Federal Home Loan Bank of Indianapolis (FHLBI). Through its membership, the Company has a \$2,000,000,000 credit facility of which borrowings longer than a year are limited to \$1,500,000,000. It is part of the Company's strategy to utilize these funds for operations, and any funds obtained from the FHLBI for use in general operations would be accounted for consistent with *SSAP No. 15 Debt and Holding Company Obligations* as borrowed money.

The following table indicates the amount of FHLBI stock purchased, collateral pledges, assets and liabilities related to the agreement with FHLBI.

| | | 12/31/2013 | 12/31/2012 |
|----|--|------------------|------------------|
| 2) | FHLBI stock purchased/owned as part of the agreement | \$ 63,056,500 | \$ 60,018,030 |
| 3) | Collateral pledged to the FHLBI | \$ 1,333,686,934 | \$ 1,292,127,135 |
| 4) | Borrowing capacity currently available | \$ 768,431,558 | \$ 756,105,305 |
| 5) | Agreement assets and liabilities | | |
| | General Account: | | |
| | a. Assets | \$ 534,703 | \$ 2,054 |
| | b. Liabilities | \$ 1,173,176,607 | \$ 1,038,911,592 |
| | Separate Account: | | |
| | c. Assets | \$ - | \$ - |
| | d. Liabilities | \$ - | \$ - |

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

- A. Defined Benefit Plan — The Company sponsors two defined benefit pension plans as follows:

Retirement Account Plan — Non-represented employees who meet specified age and service requirements participate in this plan which is a cash balance arrangement. Pension benefits of participants in this plan become vested after three years of service. Participants have an initial account balance to which interest and earnings credits are added. Participants employed prior to January 1, 1999, have an initial account balance based on their accrued benefit under a prior defined benefit plan the Company sponsored for non-represented employees while non-represented participants hired after January 1, 1999, have an initial account balance of zero. Subject to an annual 4% minimum, interest is credited quarterly based on the yield on one year Treasury constant maturities for the August immediately preceding the plan year. Annual earnings credits ranging from 3% to 10% based on age and date of hire are credited on a monthly basis. Employees can elect to receive the lump sum value of their vested account balance upon termination or can elect monthly payments or a lump sum upon retirement age.

Represented Employees' Retirement Income Plan — Represented employees who meet specified age and service requirements participate in this plan which for represented employees hired prior to January 1, 2009, is an average final pay plan and for post January 1, 2009, new hires is a cash balance plan. Participants benefiting

under the cash balance provisions vest after three years of service while participants benefiting under the final average pay provisions vest after five years of service. Under the final average pay provisions, the postretirement monthly benefit is 1.4% times average monthly earnings times years of credit service. For post January 1, 2009 represented new hires, the plan provides an account balance that grows through earnings and interest credits similar to the plan for non-represented employees. Each month, represented employees benefiting under the cash balance provisions receive earning credits of 6.4% of defined monthly adjusted pay. Interest is credited quarterly and is based on the yield of the one year Treasury constant maturities for the August immediately preceding the plan year. Represented participants participating under the plan's cash balance provisions can elect to receive the lump sum value of their vested account balance upon termination or monthly payments or a lump sum at retirement age. Represented employees participating under the final average pay provision of the represented employee plan can only elect from various monthly payment options upon retirement.

Nonqualified Plans — Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the IRC. Benefits under the plans are unfunded and paid out of the general assets of the Company. The PBO for these plans was \$60,401,000 and \$42,745,735 as of September 30, 2013 and 2012, respectively.

A summary of assets, obligations, and assumptions of the pension and other postretirement benefit plans at plan measurement dates of September 30, 2013 and 2012, and as recorded as of December 31, 2013 and 2012, are as follows:

(1) Change in benefit obligation:

| a. Pension Benefits | 2013 | 2012 |
|---|-------------------------|-------------------------|
| Benefits obligation — beginning of year | \$ 1,370,019,195 | \$ 1,143,950,084 |
| Service cost | 47,168,318 | 46,669,369 |
| Interest cost | 57,435,161 | 59,736,490 |
| Actuarial (gain)/loss | (127,333,316) | 176,000,102 |
| Benefits and administrative expenses paid | (58,812,880) | (56,359,399) |
| Amendments | <u>22,775,630</u> | <u>22,549</u> |
| Benefits obligation — end of year | <u>\$ 1,311,252,108</u> | <u>\$ 1,370,019,195</u> |
| b. Postretirement Benefits | 2013 | 2012 |
| Benefits obligation — beginning of year | \$ 715,281,417 | \$ 621,158,951 |
| Service cost | 21,546,227 | 27,672,020 |
| Interest cost | 34,617,012 | 32,179,379 |
| Actuarial (gain)/loss | (119,518,959) | 62,925,269 |
| Benefits and administrative expenses paid | (31,177,926) | (28,654,202) |
| Amendments | <u>127,144,786</u> | <u></u> |
| Benefits obligation — end of year | <u>\$ 747,892,557</u> | <u>\$ 715,281,417</u> |

(2) Change in plan assets:

| | Pension Benefits | |
|---|-------------------------|-----------------------|
| | 2013 | 2012 |
| Fair value of plan assets — beginning of year | \$ 995,229,883 | \$ 793,454,839 |
| Actual return on plan assets | 116,491,015 | 165,587,052 |
| Contributions received | 35,985,500 | 89,571,509 |
| Benefits and administrative expenses paid | <u>(55,973,214)</u> | <u>(53,383,517)</u> |
| Fair value of plan assets — end of year | <u>\$ 1,091,733,184</u> | <u>\$ 995,229,883</u> |

(3) Funded status:

| | Pension Benefits | | Postretirement Benefits | |
|--|-------------------------|-----------------------|--------------------------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Overfunded: | | | | |
| a. Assets (nonadmitted) | | | | |
| 1. Prepaid Benefit Costs | - | \$ 137,508,454 | - | - |
| 2. Overfunded Plan Assets | - | - | - | - |
| 3. Total Assets (nonadmitted) | - | - | - | - |
| Underfunded: | | | | |
| b. Liabilities recognized | | | | |
| 1. Accrued Benefit Costs | \$ 35,178,719 | - | \$ 576,983,430 | \$ 531,995,397 |
| 2. Liability for pension benefits | \$ 184,340,205 | \$ 415,933,282 | \$ 11,040,361 | - |
| 3. Total liabilities recognized | <u>\$219,518,924</u> | <u>\$415,933,282</u> | <u>\$588,023,791</u> | <u>\$531,995,397</u> |
| c. Unrecognized liabilities | - | - | \$ 159,868,766 | - |
| Additional information: | | | | |
| Projected benefit obligation | \$ 1,311,252,108 | \$ 1,370,019,195 | \$ 747,892,557 | \$ 715,281,417 |
| Fair value of plan assets | <u>1,091,733,184</u> | <u>995,229,883</u> | | |
| Unfunded status | 219,518,924 | 374,789,312 | 747,892,557 | 715,281,417 |
| Unamortized prior service cost | | (5,204,176) | | 26,741,290 |
| Unrecognized net loss | | (506,358,351) | | (210,027,310) |
| Contribution between measurement date and fiscal year end | | (735,239) | | |
| Additional minimum liability | | 415,933,282 | | |
| Statutory transition adjustment | | | | |
| Net pension liability | <u>\$ 219,518,924</u> | <u>\$ 278,424,828</u> | <u>\$ 747,892,557</u> | <u>\$ 531,995,397</u> |
| Accrued pension expense included in other liabilities | \$ 219,518,924 | \$ 278,424,828 | \$ 588,023,791 | \$ 531,995,397 |
| Information for pension plans with an accumulated benefit obligation in excess of plan assets: | | | | |
| Projected benefit obligation | \$ 1,311,252,108 | \$ 1,370,019,195 | 747,892,557 | 715,281,417 |
| Accumulated benefit obligation | \$ 1,233,599,794 | \$ 1,274,389,950 | - | - |

(4) Components of net periodic benefit cost

| | Pension Benefits | | Postretirement Benefits | |
|---|-------------------------|----------------------|--------------------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | \$ 47,168,318 | \$ 46,669,369 | \$ 21,546,227 | \$ 27,672,020 |
| Interest cost | 57,435,161 | 59,736,490 | 34,617,012 | 32,179,379 |
| Expected return on plan assets | (77,445,296) | (72,602,971) | | |
| Amortization of Net Transition (Asset)/Obligation | | | | |
| Amortization of (Gains)/Losses | 33,002,366 | | 9,628,003 | (7,895,530) |
| Amortization of Prior Service Costs/(Credits) | 8,530,811 | 21,161,769 | 10,374,717 | 6,984,840 |
| Total net periodic benefit cost | <u>\$ 68,691,360</u> | <u>\$ 54,964,657</u> | <u>\$ 76,165,959</u> | <u>\$ 58,940,709</u> |

(5) Amounts in unassigned surplus not yet recognized as components of net periodic benefit cost:

| | Pension Benefits | | Postretirement Benefits | |
|---|-------------------------|-------------|--------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Items not yet recognized as a component of net period cost - prior year | \$ 511,562,527 | | \$ 183,286,020 | |
| Net prior service costs arising during the period | \$ 22,775,630 | | \$ 127,144,786 | |
| Net prior service cost recognized | \$ (8,530,811) | | \$ (10,374,717) | |
| Net (gain) arising during the period | \$ (166,379,035) | | \$ (119,518,959) | |
| Net (gain) recognized | \$ (33,002,366) | | \$ (9,628,003) | |
| Adjustment for contributions made between measurement date | | | | |
| measurement date and fiscal year end | \$ 695,126 | | \$ | |
| Items not yet recognized as a component of net period cost - current year | <u>\$ 327,121,071</u> | \$ 0 | <u>\$ 170,909,127</u> | \$ 0 |

(6) Amounts in unassigned surplus expected to be recognized in next fiscal year as components of net periodic benefit cost:

| | Pension Benefits | | Postretirement Benefits | |
|------------------------|-------------------------|-------------|--------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net prior service cost | \$ 3,910,000 | - | \$ 11,630,000 | - |
| Net recognized loss | \$ 16,480,000 | - | \$ 980,000 | - |

(7) Amounts in unassigned surplus that have not yet been recognized as components of net periodic benefit cost are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|------------------------|-------------------------|-------------|--------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net prior service cost | \$ 19,448,995 | - | \$ 90,028,779 | - |
| Net recognized loss | \$ 307,672,076 | - | \$ 80,880,348 | - |

(8) Weighted-average assumptions used to determine net periodic benefit cost as of December 31, 2013 and 2012:

| | <u>Pension Benefits</u> | | <u>Postretirement Benefits</u> | |
|---|-------------------------|-------|--------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| a. Weighted-average discount rate | 4.22% | 4.23% | 4.38% | 4.38% |
| b. Expected long-term rate of return on plan assets | 8.00% | 8.00% | | |
| c. Rate of compensation increase | 5.52% | 5.55% | 5.00% | |

Weighted-average assumptions used to determine projected benefit obligations as of December 31, 2013 and 2012:

| | <u>Pension Benefits</u> | | <u>Postretirement Benefits</u> | |
|-----------------------------------|-------------------------|-------|--------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| d. Weighted-average discount rate | 5.01 % | 4.23% | 5.18 % | 4.38% |
| e. Rate of compensation increase | 5.52 % | 5.55% | 5.00% | |

For measurement purposes, a 7.03 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate was assumed to decrease gradually to 5.11 percent for 2020 and remain at that level thereafter.

For measurement purposes, a 7.54 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013. The rate was assumed to decrease gradually to 5.00 percent for 2020 and remain at that level thereafter.

(9) The amount of accumulated benefit obligation for defined benefit pension plans was \$1,233,599,794 for the current year and \$1,274,389,950 for the prior year.

(10) Postretirement Benefits – The Company provides certain health care and selected other benefits to certain employees and dependents of employees who retire from active employment or who become disabled. Eligibility requirements vary based on hire date, years of service and retirement age. Represented employees hired after January 1, 2009 are not eligible for postretirement health care. All participants in the non-represented plan and the represented plan are required to enroll in the Medicare Advantage program upon reaching age 65.

Postretirement health care benefits are subject to revision at the discretion of Company's chief executive officer for non-represented employees, and for represented employees is subject to collective bargaining agreements. The Company's postretirement healthcare plan is unfunded.

(11) Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | Point Increase | Point Decrease |
|--|----------------|----------------|
| a. Effect on total of service and interest cost components | \$ 9,603,249 | \$ (6,543,017) |
| b. Effect on postretirement benefit obligation | \$ 10,449,970 | \$ (7,723,228) |

(12) The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

| Years Ending December 31 | Pension Benefits Future Benefit Payments |
|-------------------------------|--|
| a. 2014 | \$ 74,690,000 |
| b. 2015 | 85,220,000 |
| c. 2016 | 87,160,000 |
| d. 2017 | 89,640,000 |
| e. 2018 | 94,910,000 |
| f. 2019 through 2023 | 524,850,000 |
| Total Future Benefit Payments | <u>\$ 956,470,000</u> |

(13) The Company contributed \$39,450,000 in 2013 and \$89,572,000 in 2012 to its defined benefit pension plans. As of December 31, 2013, the Company expects to contribute \$41,057,000 in required contributions to its defined benefit pension plans in 2014.

(14) Summary of unrecognized items:

| | Pension Benefits | | Postretirement Benefits | |
|--|-------------------------|-------------|-------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Items not yet recognized as pension expense- prior year | \$ (511,562,527) | | \$ (183,286,020) | |
| Nonvested obligation recognized included in transition adjustment | (19,557,257) | | (127,144,789) | |
| Items not yet recognized - current year | <u>327,121,071</u> | | <u>170,909,127</u> | |
| Net Change in items not recognized after adoption of SSAP 92 / 102 | <u>\$ (203,998,713)</u> | <u>\$ 0</u> | <u>\$ (139,521,682)</u> | <u>\$ 0</u> |
| Additional transitional adjustment recognized recorded in unassigned surplus per INT 13-03 | \$ 99,566,316 | | \$ 119,518,959 | |

(15) The company adopted Accounting for Postretirement Benefits Other than Pensions, A Replacement of SSAP No. 14 and SSAP No, 102 - Accounting for Pensions, A Replacement of SSAP No. 89 - Effective January 1, 2013, SSAP Nos. 92 and 102 replace SSAP Nos. 14 and 89. Under the prior guidance, minimum pension liability was established based on excess of accumulated benefit obligation for vested employees over the fair value of plan assets. The new guidance uses a projected benefit obligation including non-vested employees. The new guidance allows a transition option for phase-in not to exceed 10 years. Additionally, the new guidance requires a change in measurement date to December 31 beginning in 2014. Upon

adoption on January 1, 2013, the full impact to the Company's surplus assuming immediate recognition of SSAP Nos. 92 and 102 would have been a decrease in surplus of approximately \$341,000,000 on a net tax basis. Under the transition option which incorporated previous recorded reductions to surplus for pension Additional Minimum Liability and non-admitted prepaid pension assets, the net reduction to surplus upon adoption was \$37,900,000.

The Company's full pension and postretirement transition liability determined at January 1, 2013 was \$365,604,108 and \$310,430,806, respectively. The recognized transition amounts for 2013 includes the initial required amount of \$297,080,873 and the additional amounts required under INT 13-03 of \$219,085,275. The remaining transition balance for postretirement as of December 31, 2013 is \$159,868,766. The funded status of the pension plan was fully recognized at December 31, 2013. The anticipated recognition of the remaining unrecognized liability balance over the transition period for postretirement liability is as follows:

| Year | Pension Benefits | | Postretirement Benefits | |
|------|--------------------------------|------------------|--------------------------------|------------------|
| | Transition Amount/Amortization | Unbooked Balance | Transition Amount/Amortization | Unbooked Balance |
| 2013 | \$ 365,604,108 | \$ 0 | 150,562,040 | \$ 159,868,766 |
| 2014 | | | 31,043,081 | 128,825,685 |
| 2015 | | | 31,043,081 | 97,782,604 |
| 2016 | | | 31,043,081 | 66,739,523 |
| 2017 | | | 31,043,081 | 35,696,442 |
| 2018 | | | 28,934,969 | 6,761,473 |
| 2019 | | | 6,761,473 | |

- B. Pension Trust Investment Policy — Plan assets for both the non-represented and represented employee's pension plans are held in a single master trust with State Street Bank. Each plan owns its allocable share of all master trust assets. Master trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the master trust are currently managed by 11 external investment managers with assets allocated to equity, fixed-income securities, cash, and alternative investments based on the pension investment policy statement.

The Company's pension trust asset allocation considers return objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The pension investment policy is long-term oriented and consistent with the Company's risk posture and is periodically reviewed by the Pension Advisory Committee. The pension trust asset allocation is currently transitioning to an allocation that will reduce balance sheet and funding volatility for the company while ensuring the maintenance of trust assets sufficient to cover plan benefits and expenses.

The ultimate target allocation under the Company's investment policy is 60% long duration fixed income securities and 40% return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long duration fixed income securities and cash equivalents. The return-seeking allocation currently includes publicly traded equities, publicly traded high-yield fixed income securities, and fund of fund private equity. As of December 31, 2013, the actual allocation of plan assets was approximately 40% long-duration fixed income securities cash and 60% return-seeking assets. The ultimate target

asset allocation of 60% long duration fixed-income and 40% return seeking is expected to occur by the end of 2016 but could take more or less time, dependent on market conditions.

Under the pension investment policy, at least 85% of pension assets will, at all times, be invested in publicly traded equities and fixed income securities and cash equivalents.

C. Fair value measurements of plan assets by asset category as of September 30, 2013:

(1) Fair value measurements of plan assets at reporting date

| Description for each class of plan assets | Fair Value Measurements Using | | | Total |
|---|---|---|--|-------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Cash equivalents | \$ 95,416,000 | \$ 1,697,000 | \$ | \$ 97,113,000 |
| Commingled pension trust (A) | | 357,896,000 | | 357,896,000 |
| Insurance annuity contract | | | 376,000 | 376,000 |
| Limited partnership | | | 38,063,000 | 38,063,000 |
| Common stocks | 273,199,000 | 240,000 | 42,113,000 | 315,552,000 |
| U.S. treasury securities | | 37,057,000 | | 37,057,000 |
| Corporate debt securities (B) | | 236,679,000 | 2,638,000 | 239,317,000 |
| Mortgage-backed securities | | 6,360,000 | | 6,360,000 |
| Total Plan Assets | <u>\$ 368,615,000</u> | <u>\$ 639,929,000</u> | <u>\$ 83,190,000</u> | <u>\$ 1,091,734,000</u> |

(A) Includes pension master trust's interest in Pacific Investment Management Company (PIMCO) stock-plus limited partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 of \$230,021,000 and master trust's holding in Thornburg Non US Equity Fund, a commingled trust representing the pension's international equity allocation \$143,090,000.

(B) Corporate bonds include fixed-income securities in separately managed portfolios. The diversified fixed-income mandate is targeted at 36% of pension assets and is managed by Western Asset Management Company and NISA Investment Advisors. Loomis, Sayles and Company manages a high-yield fixed-income portfolio targeted at 7% of pension assets.

The fair values measurements of plan assets as of September 30, 2012:

| Description for each class of plan assets | Fair Value Measurements Using | | | Total |
|---|---|---|--|-----------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Cash equivalents | \$ 39,874,000 | \$ | \$ | \$ 39,874,000 |
| Commingled pension trust (A) | | 323,226,000 | | 323,226,000 |
| Insurance annuity contract | | | 461,000 | 461,000 |
| Limited partnership | | | 37,380,000 | 37,380,000 |
| Common stocks | 233,587,000 | 29,097,000 | | 262,684,000 |
| U.S. treasury securities | | 85,374,000 | | 85,374,000 |
| Corporate debt securities (B) | | 245,652,000 | | 245,652,000 |
| Mortgage-backed securities | | 578,000 | | 578,000 |
| Total Plan Assets | <u>\$ 273,461,000</u> | <u>\$ 683,927,000</u> | <u>\$ 37,841,000</u> | <u>\$ 995,229,000</u> |

(A) Includes pension master trust's interest in Pacific Investment Management Company (PIMCO) stock-plus limited partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 of \$205,515,000 and master trust's holding in Thornburg Non US Equity Fund, a commingled trust representing the pension's international equity allocation \$117,711,000.

(B) Corporate bonds include fixed-income securities in separately managed portfolios. The diversified fixed-income mandate is targeted at 30% of pension assets and is managed by Western Asset Management Company. Loomis, Sayles and Company manages a high-yield fixed-income portfolio targeted at 9% of pension assets.

(2) Fair value measurements in Level 3 of the fair value hierarchy:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | Total |
|---|--|------------------------|------------------------|---------------------|----------------------|
| | Equities | Limited Partnership | Insurance Annuities | Other | |
| Balance at October 1, 2011 | \$ 214,000 | \$ 37,436,000 | \$ 566,000 | \$ 385,000 | \$ 38,601,000 |
| Actual return on plan assets: | | | | | |
| Relating to assets still held at the reporting date | 85,000 | 1,096,000 | | (49,000) | 1,132,000 |
| Relating to assets sold during the period | | | (116,000) | | (116,000) |
| Purchases, sales, and settlements | | (1,152,000) | 11,000 | (4,000) | (1,145,000) |
| Transfers in and/or out of Level 3 | <u>(299,000)</u> | | | <u>(332,000)</u> | <u>(631,000)</u> |
| Ending balance at September 30, 2012 | - | 37,380,000 | 461,000 | - | 37,841,000 |
| Actual return on plan assets: | | | | | |
| Relating to assets still held at the reporting date | | 4,183,000 | | | 4,183,000 |
| Relating to assets sold during the period | | | | | |
| Purchases, sales, and settlements | | (3,500,000) | (85,000) | | (3,585,000) |
| Transfers in and/or out of Level 3 | <u>42,113,000</u> | | | <u>2,638,000</u> | <u>44,751,000</u> |
| Ending balance at September 30, 2013 | <u>\$ 42,113,000</u> | <u>\$ 38,063,000</u> | <u>\$ 376,000</u> | <u>\$ 2,638,000</u> | <u>\$ 83,190,000</u> |

(3) The Company and its investment managers determine fair values by applying the following guidelines. If available, the Company uses market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for identical financial instruments in an active market are not available, the Company estimates fair value

based on quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, and/or inputs derived from observable market data, and classifies these assets as Level 2. In situations where there is little or no market activity for same or similar financial instruments, the Company estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3 investments.

The commingled pension fund is recorded at fair value based on the underlying investments in the funds which consist primarily of securities with quoted market prices in active markets. As a result, such funds have been classified as level 2 investments.

Limited partnerships do not have a readily determinable market value. Fair values based on information provided by the fund managers along with audited financial information. As a result, such securities have been classified as Level 3 investments.

U.S. treasury securities consist of certain U.S. government securities and bonds issued by U.S. government-backed agencies. Because valuation is based on unadjusted quoted prices for these securities in an active market and there is a lack of transparency into the specific pricing of the individual securities, they are classified as Level 2 investments.

Corporate debt securities valuation is based on inputs derived directly from observable market data such as discounted cash flows which are not consistently or actively traded, they are classified as level 2 investments.

- D. **Defined Contribution Plan** — Represented employees of the Company who have attained the age of 21 years and have completed three months of continuous service are automatically enrolled in the savings plan for represented employees. Non-represented employees over 21 years of age are automatically enrolled in the savings plan for non-represented employees upon their employment commencement date. Both savings plans are tax-qualified under Section 401(k) of the IRC. For both non-represented and represented employees, the Company matches 50% of employee contributions up to 10% of biweekly adjusted W-2 wages for employees with one year of continuous service. The IRC limit on elective employee deferrals was \$17,500 and \$17,000 (in dollars) for 2013 and 2012, respectively. The IRC allows catch-up contributions in addition to normal, elective contributions for employees who are age 50 or older as of December 31 in the amount of \$5,500 for 2013 and 2012. Catch-up contributions are not matched by the Company. The Company's expense for matching contributions totaled approximately \$16,950,000 and \$16,065,000 for 2013 and 2012, respectively. At December 31 the fair value of plan assets was \$745,795,600 and \$609,577,500 for 2013 and 2012, respectively.
- E. **Consolidated Company Plans** - Effective January 1, 2009, all employees of BCNM became employees of the Company. As part of the employee transfer, the Company assumed responsibility for administering and funding pension and other postretirement benefits for the former Blue Care Network employees and retirees. Current pension and postretirement costs are reimbursed to the Company from Blue Care Network on a pay-as-you-go basis. In exchange for assuming the prior year's unfunded postretirement health obligation of \$72,153,000, the parties executed an intercompany transfer agreement, whereby Blue Care Network will repay the obligation assumed by the Company with annual installments, over a 20-year term, of \$3,608,000 annually. The intercompany postretirement balance was \$54,115,000 and \$57,722,000 as of 2013 and 2012, respectively. Intercompany cash transfers of \$10,614,000 and \$8,162,000 in 2013 and 2012, respectively, were made between Blue Care Network and the Company for pension costs. Also, BCNM paid the Company

\$8,135,000 and \$6,926,000 in 2013 and 2012, respectively, for its share of the post-retiree health care costs.

- F. Disclosure of Gross Benefit Payments - The Company's gross benefit payments for 2013 were \$39,200,000 including the prescription drug benefit and estimates future payments to be \$491,960,000 annually. The Company's subsidy related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was \$2,420,000 for 2013 and estimates future subsidies to be \$40,150,000 annually. The gross future benefit payments expected to be paid and future anticipated subsidies received are as follows:

| Years Ending December 31 | Postretirement Benefits | |
|-------------------------------|----------------------------|---------------------------------|
| | Future Benefit Payments | Anticipated Future Subsidies |
| a. 2014 | \$ 39,330,000 | \$ 2,330,000 |
| b. 2015 | 41,560,000 | 2,690,000 |
| c. 2016 | 43,730,000 | 3,050,000 |
| d. 2017 | 45,900,000 | 3,410,000 |
| e. 2018 | 48,500,000 | 3,810,000 |
| f. 2019 through 2023 | 272,940,000 | 24,860,000 |
| Total Future Benefit Payments | <u>\$ 491,960,000</u> | <u>\$ 40,150,000</u> |

13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

- A. The Company must maintain adequate subscribers' reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable, and entitled to public confidence. As discussed in Footnote 1, effective December 31, 2013 the Company is no longer subject to the provisions of P.A. 350, which would otherwise require the Company to maintain an RBC ratio of at least 200%, not to exceed 1,000% of subscribers' reserves. As set forth in section 500.410, the Director of DIFS is authorized to take into account the NAIC RBC requirements when evaluating if an insurer is in compliance with the "safe and reliable" requirement of section 403. At December 31, 2013 the Company's policyholder reserves are in compliance with the requirements set forth in the Michigan Insurance Code.

At December 31, 2012, the Company was in compliance with the RBC requirement contained in PA 350.

- B. BCBSM has no preferred stock outstanding.
- C. Dividend restrictions – NOT APPLICABLE.
- D. Dividend payments – NOT APPLICABLE
- E. Surplus Restriction – NOT APPLICABLE
- F. The total amount of advances to surplus not repaid – NOT APPLICABLE
- G. The amount of stock held by BCBSM for special purposes – NOT APPLICABLE
- H. Special surplus funds changes – NOT APPLICABLE

I. The portion of unassigned funds (surplus) represented or reduced by each item below:

| | | |
|--------------------------------|----|--------------|
| a. Unrealized gains and losses | \$ | 217,683,301 |
| b. Nonadmitted asset values | \$ | (58,740,999) |
| c. Provision for reinsurance | \$ | - |

J. Surplus debentures of similar obligations – NOT APPLICABLE

K. Impact of any restatement due to quasi-reorganization – NOT APPLICABLE

L. Effective dates of all quasi-reorganizations in the prior 10 years – NOT APPLICABLE

14. CONTINGENCIES

A. Contingent Commitments

- 1) The Company has outstanding commitment for additional investment to its joint ventures and partnership interests in the amount of \$133,549,790 at December 31, 2013.
- 2) As a 38.7 percent equity owner in BMH, the Company has agreed to guarantee its proportionate share of a line of credit loan outstanding with PNC Bank and Fifth Third Bank. The line of credit was entered into on May 23, 2013 and provides for borrowing up to \$225,000,000 and is for a one year term. The outstanding debt balance as of December 31, 2013 is \$130,000,000.

Under the agreement, BMH has certain financial covenants, and at December 31, 2013, was in compliance with the covenants. In the event of default, however, the Corporation's obligation would be as follows:

| 1 | 2 | 3 | 4 | 5 |
|---|--|--|--|---|
| Nature and circumstances of guarantee and key attributes, including date and duration of agreement. | Liability recognition of guarantee. (Include amount recognized at inception. If no initial recognition, document exception allowed under SSAP No. 5R.) | Ultimate financial statement impact if action under the guarantee is required. | Maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee. If unable to develop an estimate, this should be specifically noted. | Current status of payment or performance risk of guarantee. Also provide additional discussion as warranted. |
| Guarantee proportionate share of BMH line of credit loan outstanding with PNC Bank and Fifth Third Bank | 0 | Capital contribution to BMH, LLC | \$50,362,000 | BMH, LLC is in compliance with its financial covenants relating to this line of credit as of December 31, 2013. |
| Total | | | \$50,362,000 | |

- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. Claims Related Extra Contractual Obligation Lawsuits – NOT APPLICABLE
- E. All Other Contingencies

Hospital Contracts — Two civil lawsuits challenging the use of most favored nations (MFN) clauses in hospital contracts have been filed seeking injunctive and monetary relief. The Company believes that these lawsuits are without merit and will defend its ability to negotiate the deepest possible discounts for its members and customers with Michigan hospitals. It is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss. Aetna has indicated, during the course of discovery, that they are seeking in excess of \$1 billion in damages. The lawsuit filed by the Department of Justice was dismissed in March of 2013.

Customer Disputes — The Company is currently involved in lawsuits with several local self-funded group customers that allege the Company charged the groups provider network and other fees without their knowledge. The groups allege breach of contract and fiduciary duty. These cases are in various stages of development. The Company believes it has meritorious defenses and the Michigan Court of Appeals has overturned three of the adverse decisions.

Other — The Company is a defendant in numerous other lawsuits and involved in other matters arising in the normal course of business primarily related to subscribers' benefits, breach of contracts, provider reimbursement issues and provider participation arrangements. The Company defends these matters and while the ultimate outcome of these lawsuits are not final, the Company's management, as of December 31, 2013 estimates that these matters will be resolved without a material adverse effect on the Company's future financial position or results of operations.

Where available information indicates that it is probable that a loss has been incurred as of the date of statutory basis financial statements and can reasonably estimate the amount of that loss, the Company will accrue the estimated loss. As of December 31, 2013 and 2012, the Company recorded in General Expenses Due or Accrued, approximately \$27,256,000 and \$24,362,000, respectively for all probable losses.

15. LEASES

The Company leases certain computer equipment and office space under various non-cancelable operating leases. Rental expense for the periods ending December 31, 2013 and 2012 was approximately \$20,343,500 and \$16,855,000, respectively.

At January 1, 2014, the minimum aggregate rental commitments, which include the EIN lease, are as follows:

Years Ending December 31**Operating Leases**

| | |
|---------------------|-----------------------|
| 2014 | 14,345,500 |
| 2015 | 13,396,200 |
| 2016 | 13,623,900 |
| 2017 | 13,981,500 |
| 2018 | 14,118,700 |
| 2019 and thereafter | <u>126,600,000</u> |
| Total | <u>\$ 196,065,800</u> |

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK – NOT APPLICABLE

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES –

A. Transfers of Receivables Reported as Sales – NOT APPLICABLE

B. Transfer and Servicing of Financial Assets

The Company, in the normal course of business, enters into security lending agreements with a custodian bank. Under this agreement, the Company lends equity and bond securities in exchange for collateral, approximating at least 102% of the value of the securities loaned. Cash collateral is invested by the custodian bank in commingled trusts. The security lending agreements are primarily overnight in nature and subject to renewal or termination.

Fair value of loaned securities as of December 31, 2013 and 2012, consists of the following:

| | 2013 | 2012 |
|--------|----------------------|----------------------|
| Bonds | \$ 12,345,481 | \$ 13,040,875 |
| Equity | <u>59,734</u> | <u>4,230,016</u> |
| Total | <u>\$ 12,405,215</u> | <u>\$ 17,270,891</u> |

Collateral received as of December 31, 2012 and 2011, consists of the following:

| | 2013 | 2012 |
|-----------------|----------------------|----------------------|
| Cash collateral | <u>\$ 12,673,388</u> | <u>\$ 17,620,770</u> |

Reinvested cash collateral as of December 31, 2013 and 2012, consists of the following:

| | 2013 | |
|------------------------------|-------------------------------------|----------------------|
| | Book/Adjusted Carrying Value | Fair Value |
| Commingled trust — liquidity | \$ 2,620,473 | \$ 2,620,593 |
| Commingled trust — duration | <u>10,052,914</u> | <u>9,951,735</u> |
| Total reinvested | <u>\$ 12,673,388</u> | <u>\$ 12,572,328</u> |

| | 2012 | |
|------------------------------|---|-----------------------|
| | Book/Adjusted Carrying Value | Fair Value |
| Commingled trust — liquidity | \$ 3,465,604 | \$ 3,423,575 |
| Commingled trust — duration | <u>14,155,166</u> | <u>13,939,940</u> |
| Total reinvested | <u>\$ 17,620,770</u> | <u>\$ 17,363,515</u> |

C. Wash Sales – NOT APPLICABLE

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

A. ASO Plans – NOT APPLICABLE

B. ASC Plans - The gain(loss) from operations of administrative service contracts (ASC) uninsured plans and the uninsured portion of partially insured plans (ASC plans with stop loss coverage) for the period ended December 31, 2013, are as follows:

| | ASC Plans without StopLoss | ASC Plans With StopLoss | Total |
|---|---------------------------------------|------------------------------------|-------------------------|
| Gross reimbursement for medical cost incurred | \$ 4,047,129,277 | \$ 6,185,268,489 | \$ 10,232,397,765 |
| Gross administrative fees accrued | 343,217,015 | 513,677,280 | 856,894,296 |
| Gross expenses incurred (claims and administrative) | <u>4,460,012,897</u> | <u>6,929,435,262</u> | <u>11,389,448,159</u> |
| Total net gain (loss) from operations | <u>\$ (69,666,605)</u> | <u>\$ (230,489,493)</u> | <u>\$ (300,156,098)</u> |
| Net Underwriting Gain(Loss) | <u>Insured</u> | <u>ASC</u> | <u>Total</u> |
| Premiums fees and reimbursements | \$ 6,688,428,325 | \$ 11,089,292,061 | \$ 17,777,720,386 |
| Claims Incurred | 5,800,120,877 | 10,232,397,765 | 16,032,518,642 |
| Administrative Expenses | <u>909,059,304</u> | <u>1,157,050,394</u> | <u>2,066,109,698</u> |
| Total Operating Expenses | 6,709,180,181 | 11,389,448,159 | 18,098,628,340 |
| Underwriting Loss before PDR | (20,751,856) | (300,156,098) | (320,907,954) |
| Premium Deficiency Reserve | <u>52,948,727</u> | <u>-</u> | <u>52,948,727</u> |
| Underwriting Loss After PDR | <u>\$ 32,196,872</u> | <u>\$ (300,156,098)</u> | <u>\$ (267,959,225)</u> |

The gain(loss) from operations of administrative service contracts (ASC) uninsured plans and the uninsured portion of partially insured plans for the period ended December 31, 2012, are as follows:

| | ASC Plans without StopLoss | ASC Plans With StopLoss | Total |
|---|---------------------------------------|------------------------------------|--------------------------|
| Gross reimbursement for medical cost incurred | \$ 3,989,788,524 | \$ 6,270,992,106 | \$ 10,260,780,630 |
| Gross administrative fees accrued | 336,631,531 | 550,379,098 | 887,010,629 |
| Gross expenses incurred (claims and administrative) | 4,394,423,656 | 6,931,397,211 | 11,325,820,866 |
| Total net gain (loss) from operations | <u>\$ (68,003,600)</u> | <u>\$ (110,026,007)</u> | <u>\$ (178,029,607)</u> |
| Net Underwriting Gain(Loss) | Insured | ASC | Total |
| Premiums fees and reimbursements | <u>\$ 6,412,685,175</u> | <u>\$ 11,147,791,259</u> | <u>\$ 17,560,476,434</u> |
| Claims Incurred | 5,598,867,238 | 10,260,780,630 | 15,859,647,869 |
| Administrative Expenses | <u>893,410,330</u> | <u>1,065,040,236</u> | <u>1,958,450,566</u> |
| Total Operating Expenses | 6,492,277,568 | 11,325,820,866 | 17,818,098,434 |
| Underwriting Loss before PDR | (79,592,392) | (178,029,607) | (257,622,000) |
| Premium Deficiency Reserve | <u>36,643,753</u> | <u>-</u> | <u>36,643,753</u> |
| Underwriting Loss After PDR | <u>\$ (42,948,638)</u> | <u>\$ (178,029,607)</u> | <u>\$ (220,978,245)</u> |

C. Medicare or Similarly Structured Cost Based Reimbursement Contract – NOT APPLICABLE

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS - NOT APPLICABLE

20. FAIR VALUE MEASUREMENTS

A. Inputs Used for Assets and Liabilities Measured and Reported at Fair Value

1. Items Measured and Reported at Fair Value by levels 1, 2 and 3

The Company and its investment managers determine fair values by applying the following guidelines. If available, the Company uses market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for identical financial instruments in an active market are not available, the Company estimates fair value based on quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, and/or inputs derived from observable market data, and classifies these assets as Level 2. In situations where there is little or no market activity for same or similar financial instruments, the Company estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3.

Commingled international equity funds are recorded at fair value based on the underlying investments in the funds which consist primarily of securities with quoted market prices in active markets. As a result, such funds have been classified as level 2 investments.

The Company's assets and liabilities measured and recorded at fair value as of December 31, 2013, are as follows:

| Description of each class of asset or liability | (Level 1) | (Level 2) | (Level 3) | Total |
|---|----------------|---------------|-----------|----------------|
| a. Assets at fair value | | | | |
| Common Stock | | | | |
| Industrial and Miscellaneous | \$ 737,259,437 | \$ 23,306,357 | | \$ 760,565,794 |
| Total Common Stocks | \$ 737,259,437 | \$ 23,306,357 | \$ - | \$ 760,565,794 |
| Other | | | | |
| Commingled International Equity Funds | | \$ 70,759,875 | | \$ 70,759,875 |
| Private Mutual Fund | | \$ - | | \$ - |
| Total Other | \$ - | \$ 70,759,875 | \$ - | \$ 70,759,875 |
| Security Lending Collateral | | | | |
| Security Lending Quality Trust - Liquidity | | \$ - | | \$ - |
| Security Lending Quality Trust - Duration | | \$ - | | \$ - |
| Total Security Lending Collateral | \$ - | \$ - | \$ - | \$ - |
| Total assets at fair value | \$ 737,259,437 | \$ 94,066,232 | \$ - | \$ 831,325,669 |
| b. Liabilities at fair value | | | | |
| Total liabilities at fair value | \$ - | \$ - | \$ - | \$ - |
| Total assets and liabilities at fair value | \$ 737,259,437 | \$ 94,066,232 | \$ - | \$ 831,325,669 |

During 2013, there have been no transfers between Level 1 and Level 2.

The Company's assets and liabilities measured and recorded at fair value as of December 31, 2012, are as follows:

| Description of each class of asset or liability | (Level 1) | (Level 2) | (Level 3) | Total |
|---|----------------|---------------|-----------|----------------|
| a. Assets at fair value | | | | |
| Common Stock | | | | |
| Industrial and Miscellaneous | \$ 741,447,162 | \$ - | | \$ 741,447,162 |
| Total Common Stocks | \$ 741,447,162 | \$ - | \$ - | \$ 741,447,162 |
| Other | | | | |
| Commingled International Equity Funds | | \$ 58,403,351 | | \$ 58,403,351 |
| Private Mutual Fund | | \$ 19,418,948 | | \$ 19,418,948 |
| Total Other | \$ - | \$ 77,822,299 | \$ - | \$ 77,822,299 |
| Security Lending Collateral | | | | |
| Security Lending Quality Trust - Liquidity | | \$ 3,423,575 | | \$ 3,423,575 |
| Security Lending Quality Trust - Duration | | \$ 13,939,940 | | \$ 13,939,940 |
| Total Security Lending Collateral | \$ - | \$ 17,363,515 | \$ - | \$ 17,363,515 |
| Total assets at fair value | \$ 741,447,162 | \$ 95,185,814 | \$ - | \$ 836,632,976 |
| b. Liabilities at fair value | | | | |
| Total liabilities at fair value | \$ - | \$ - | \$ - | \$ - |
| Total assets and liabilities at fair value | \$ 741,447,162 | \$ 95,185,814 | \$ - | \$ 836,632,976 |

2. Fair value Measurements in (Level 3) of the Fair Value Hierarchy

The Company has no assets measured and recorded at fair value in the Level 3 category at December 31, 2013 or December 31, 2012.

3. Policy on Transfers Into and Out of Level 3

Transfers between levels may occur due to changes in the availability of market observable inputs. Transfers in and/or out of any level are assumed to occur at the end of the period. During the current year, no transfers into or out of Level 3 were required.

4. Inputs and Techniques Used for Level 2 and Level 3 Fair Values

Transfers into Level 3 - Assets and liabilities are transferred into Level 3 when a significant input can no longer be corroborated with market observable data. This occurs when market activity related to particular securities becomes unobservable. Transfers into Level 3 are reflected as if they had occurred at the end of the period. Loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchases assumptions are accounted for using the prospective method.

5. Derivative Fair Values - NOT APPLICABLE**B. Other Fair Value Disclosures – NOT APPLICABLE****C. Fair Values for All Financial Instruments by Levels 1, 2 and 3.**

The table below reflects the fair values and admitted values of all admitted assets and liabilities as of December 31, 2013 that are financial instruments excluding those accounted for under the equity method (subsidiaries and joint ventures). The fair values are also categorized into the three-level fair value hierarchy as described above in Note 20A.

| Type of Financial Instrument | Fair Value | Admitted Value | (Level 1) | (Level 2) | (Level 3) | Not Practicable (Carrying Value) |
|--|---------------|----------------|---------------|---------------|------------|---|
| Financial Instrument - Assets | | | | | | |
| Bonds | 3,332,160,946 | 3,291,692,016 | - | 3,312,197,536 | 19,963,410 | |
| Preferred stock | 8,886,344 | 8,886,344 | | 8,886,344 | | |
| Common Stock | 760,565,794 | 760,565,794 | 737,259,437 | 23,306,357 | | |
| Cash, cash equivalents and short term investments | 589,932,696 | 589,932,696 | 589,932,696 | | | |
| Private Mutual Fund | - | - | | - | | |
| Commingled International Equity Funds | 70,759,875 | 70,759,875 | | 70,759,875 | | |
| Security Lending Collateral | | | | | | - |
| Security Lending Quality Trust-Liquidity | 2,620,593 | 2,620,473 | - | 2,620,593 | | |
| Security Lending Quality Trust-Duration | 9,951,735 | 10,052,914 | - | 9,951,735 | | |
| Total Security Lending Collateral | 12,572,328 | 12,673,387 | - | 12,572,328 | - | - |
| Mortgage Loan on real Estate | 4,250,000 | 4,250,000 | | 4,250,000 | | |
| Total assets at fair value | 4,779,127,982 | 4,738,760,112 | 1,327,192,133 | 3,431,972,440 | 19,963,410 | - |
| Liabilities at fair value | | | | | | |
| Derivative liabilities | - | - | - | - | - | - |
| Total liabilities at fair value | - | - | - | - | - | - |
| Total assets and liabilities at fair value | 4,779,127,982 | 4,738,760,112 | 1,327,192,133 | 3,431,972,440 | 19,963,410 | - |

The table below reflects the fair values and admitted values of all admitted assets and liabilities as of December 31, 2012 that are financial instruments excluding those accounted for under the equity method (subsidiaries and joint ventures). The fair values are also categorized into the three-level fair value hierarchy as described above in Note 20A.

| Type of Financial Instrument | Fair Value | Admitted Value | (Level 1) | (Level 2) | (Level 3) |
|--|---------------|----------------|---------------|---------------|------------|
| Financial Instrument - Assets | | | | | |
| Bonds | 3,399,074,528 | 3,217,026,015 | 638,244,495 | 2,740,050,323 | 20,779,710 |
| Preferred stock | 2,416,730 | 1,567,364 | | 2,416,730 | |
| Common Stock | 741,447,162 | 741,447,162 | 741,447,162 | | |
| Cash, cash equivalents and short term investments | 514,868,738 | 514,868,738 | 514,868,738 | | |
| Private Mutual Fund | 19,418,948 | 19,418,948 | | 19,418,948 | |
| Commingled International Equity Funds | 58,403,351 | 58,403,351 | | 58,403,351 | |
| Security Lending Collateral | | | | | |
| Security Lending Quality Trust-Liquidity | 3,423,575 | 3,465,604 | - | 3,423,575 | |
| Security Lending Quality Trust-Duration | 13,939,940 | 14,155,166 | - | 13,939,940 | |
| Total Security Lending Collateral | 17,363,515 | 17,620,770 | - | 17,363,515 | - |
| Total assets at fair value | 4,752,992,972 | 4,570,352,348 | 1,894,560,395 | 2,837,652,867 | 20,779,710 |
| Liabilities at fair value | | | | | |
| Derivative liabilities | - | - | - | - | - |
| Total liabilities at fair value | - | - | - | - | - |
| Total assets and liabilities at fair value | 4,752,992,972 | 4,570,352,348 | 1,894,560,395 | 2,837,652,867 | 20,779,710 |

D. Financial Instruments Not Practicable to Estimate Fair Values.

The Company held no securities at December 31, 2013 where it was not practicable to determine the fair value of the investment.

21. OTHER ITEMS**A. Extraordinary Items – NOT APPLICABLE****B. Troubled Debt Restructuring – NOT APPLICABLE****C. Other Disclosures:**

Blue Cross Blue Shield Association ("BCBSA") Deposit - As part of its Blue Cross Blue Shield Association ("BCBSA") license requirements, the Company is required to maintain a custodial bank account to assure the payment of claims in the event of the Company's insolvency. The account balance is calculated as a percentage of the Company's unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Company's investment portfolio. The Company has the ability to trade and transfer securities within the account as long as the balance in the account is at or above the required minimum. The required balance for the period April 1, 2013 through March 31, 2014, is \$141,600,000. At December 31, 2013, the balance in this custodial account was \$152,329,404.

Reclassification – In 2012, other invested assets (reported in Schedule BA) aggregating \$20,220,545 were moved to preferred and common stocks in Schedule D Part 2 Section 1 and Schedule D Part 2 Section 2, respectively.

D. Uncollectible Assets on Uninsured plans

At December 31, 2013 and 2012, the Company had admitted assets of \$168,985,296 and \$143,163,223, respectively in accounts receivable for uninsured plans. The Company regularly assesses the collectability of these receivables. At December 31, 2013, less than 1 percent of the balance may be uncollectible.

E. Business Interruption Insurance Recoveries – NOT APPLICABLE**F. State Transferable Tax Credits - NOT APPLICABLE****G. Subprime Mortgage Related Risk Exposure – NOT APPLICABLE****22. EVENTS SUBSEQUENT**

Management has evaluated all events subsequent to the Statement of Admitted Assets, Liabilities, and Surplus date of December 31, 2013, through the date of its Annual Statement filing of March 1, 2014, and has determined that there are no subsequent events that require disclosure under SSAP No. 9R, *Subsequent Events* except the following:

On August 22, 2103 DIFS approved the Company's request to eliminate the current prescribed practice for PDR and replace it with a permitted practice to expense as incurred the annual losses on future Medigap business. The permitted practice is effective beginning January 1, 2014 through December 31, 2019. The change in practice will cause any PDR accrual remaining to be reversed in 2014.

As well, DIFS approved the Company's request to recognize annual payments to the Michigan Health Endowment Fund (MHEF) in the year in which the payment is made, creating a one year deferral for each payment. The permitted practice would be effective January 1, 2014 until the earlier of (i) April 1, 2038 and (ii) the first date on or after April 1, 2031 upon which annual contributions total the aggregate amount (discussed in Note 23) have been paid to MHEF.

Both of these permitted practices are considered extraordinary items as defined in SSAP 24 – Discontinued Operations and Extraordinary Items, and will require additional disclosures in 2014, specifically the nature of the transaction and the principle items entering into the determination of any extraordinary loss recorded as a result of the practice.

Annual Fee Imposed on Health Insurance Providers – To cover the cost of expanded coverage and benefit provisions, Section 9010 of PPACA, imposes an industry wide annual fee on health insurance carriers that provide underwritten coverage to U.S. health risks. The national amount of the fee is \$8,000,000,000 in 2014, \$11,300,000,000 in 2015 and 2016, \$13,900,000,000 in 2017 and \$14,300,000,000 in 2018. For 2019 and beyond, the amount will be equal to the annual fee for the preceding year increased by the rate of premium growth for the preceding year. The annual tax will be allocated among health insurance carriers based on the ratio of an entity's net premiums written during the preceding calendar year to the total health insurance industry's net premiums written.

The fee is imposed on all health insurance providers covering U.S. health risks in the year the fee is payable. The fee is payable annually to the IRS no later than September 30th. Under section 9010, the full obligation of the fee is imposed on health insurance providers on January 1st of each year. The estimated fee imposed on the Company in 2014 is approximately \$100,000,000 and will decrease the RBC ratio by 22 points.

23. REINSURANCE - NOT APPLICABLE

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

- A. The company establishes a liability for experience rated group contracts and portions of Medicare Part D prescription drug contracts as a result of favorable experience based on an actuarial estimate of underwriting gains which will be returned to customers, either as cash refunds or future rate reductions. Liabilities for experience contracts were \$172,622,043 and \$222,575,039 at December 31, 2013 and December 31, 2012, respectively.
- B. Under terms of most of the experience-rated contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received.
- C. During contract years 2013 and 2012, net premiums written that are subject to retrospective rating features were \$1,529,606,882 and \$1,623,750,765, respectively, which represents 23% and 25%, respectively of total net premiums written for both years.
- D. Medical Loss Ratio Rebates Required Pursuant to the Public Health Service Act. The Company has not established a rebate liability as all MLR ratios are above required minimum thresholds.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

This estimate is based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled.

Processing expenses related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise. As of December 31, 2013, \$541,590,755 has been paid for incurred claims attributable to prior years. Reserves remaining for prior years as of December 31, 2013 were \$3,473,635.

26. INTER-COMPANY POOLING ARRANGEMENTS – NOT APPLICABLE**27. STRUCTURED SETTLEMENTS – NOT APPLICABLE****28. HEALTH CARE RECEIVABLES**

The Company receives pharmaceutical rebates from third-party pharmacy benefit managers. Rebate accruals are calculated using recent history of rebates received to develop an estimate. Activity for 2011–2013 is summarized as follows:

A. Pharmaceutical rebate Receivables

| Quarter | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More Than 180 Days After Billing |
|--------------------|---|--|--|---|---|
| December 31, 2013 | \$ 23,011,000 | \$ - | \$ - | \$ - | \$ - |
| September 30, 2013 | 23,524,000 | 5,351,000 | 5,351,000 | - | - |
| June 30, 2013 | 24,322,000 | 19,115,000 | 19,115,000 | - | - |
| March 31, 2013 | 23,195,000 | 25,792,000 | 25,792,000 | - | - |
| December 31, 2012 | \$ 28,113,000 | \$ 31,595,000 | \$ 31,595,000 | - | - |
| September 30, 2012 | 29,327,000 | 26,926,000 | 26,926,000 | - | - |
| June 30, 2012 | 30,220,000 | 24,733,000 | 24,733,000 | - | - |
| March 31, 2012 | 29,367,000 | 29,367,000 | 29,367,000 | - | - |
| December 31, 2011 | 31,726,000 | 31,266,000 | 31,266,000 | - | - |
| September 30, 2011 | 28,147,000 | 28,608,000 | 28,608,000 | - | - |
| June 30, 2011 | 28,501,000 | 30,361,000 | 30,361,000 | - | - |
| March 31, 2011 | 26,416,000 | 27,416,000 | 27,416,000 | - | - |

B. Risk Sharing Receivables – NOT APPLICABLE**29. PARTICIPATING POLICIES – NOT APPLICABLE****30. PREMIUM DEFICIENCY RESERVES**

SSAP No. 54 requires companies to record an additional liability known as a PDR when expected claim payments or incurred costs, claim adjustment expenses, and administration costs exceed the premiums to be collected for the remainder of a contract period.

Liability carried for premium deficiency reserves \$ 249,652,000

Date of the most recent evaluation of this liability 12/31/2013

Was anticipated investment income utilized in the calculation Yes() No (X)

As noted in Note 1, a state-prescribed practice was issued by DIFS, which limits the PDR for the Company's individual lines of business to no more than two years. At December 31, 2013

and 2012, if such limit was not in place, an additional liability of approximately \$171,524,000 and \$202,517,000, respectively, would be recorded in the statutory basis financial statements.

PDR (included in aggregate health policy reserves) as of December 31, 2013 and 2012, consist of the following:

| | Balance January 1, 2013 | Additional Reserve | Amortization | Balance December 31, 2013 |
|----------------|--|-------------------------------|---------------------------|--|
| MICChild | \$ 11,625,000 | \$ | \$ 11,625,000 | \$ |
| Individual | 78,185,000 | 25,586,000 | 78,185,000 | 25,586,000 |
| Senior markets | <u>212,791,000</u> | <u>224,066,000</u> | <u>212,791,000</u> | <u>224,066,000</u> |
| Total | <u>\$ 302,601,000</u> | <u>\$ 249,652,000</u> | <u>\$ 302,601,000</u> | <u>\$ 249,652,000</u> |
| | January 1, 2012 | Additional Reserve | Amortization | December 31, 2012 |
| MICChild | \$ 11,828,000 | \$ 15,242,000 | \$ 15,445,000 | \$ 11,625,000 |
| Individual | 147,328,000 | (23,966,000) | 45,177,000 | 78,185,000 |
| Senior markets | <u>180,087,000</u> | <u>176,202,000</u> | <u>143,498,000</u> | <u>212,791,000</u> |
| Total | <u>\$ 339,243,000</u> | <u>\$ 167,478,000</u> | <u>\$ 204,120,000</u> | <u>\$ 302,601,000</u> |
| | | Individual | Senior Markets | Total |
| 2014 | | \$ 25,586,000 | \$ 63,824,000 | \$ 89,410,000 |
| 2015 | | | <u>160,242,000</u> | <u>160,242,000</u> |
| Total | | <u>\$ 25,586,000</u> | <u>\$ 224,066,000</u> | <u>\$ 249,652,000</u> |

Senior Segment - In 2011, the company entered into an agreement with the Michigan Attorney General to freeze Medigap premium rates through July 31, 2016. This agreement was incorporated into the terms of the company's transition to a nonprofit mutual insurer. The Senior segment PDR recorded at December 31, 2013, reflects the loss obligations for years 2014 through 2016 that are expected to be realized in the Senior segment for the Medicare complimentary policies that are currently issued given the guarantee renewal of these policies.

Individual - The 2014 PDR incorporates significant regulatory and marketplace changes under PPACA that are effective January 1, 2014 as well as the company's transition to a nonprofit mutual insurer. Beginning in 2014 the company will stop offering products that do not meet the definition of a Qualified Health Plan (QHP) under PPACA except 1 non-QHP. Due to enrollment difficulties encountered with the government's Marketplace website, the company experienced significant enrollment in its non-QHP product. The 2014 PDR balance reflects projected losses of this non-QHP product for 2014. The prior year premium deficiency reserve for the company's individual business was established for anticipated losses primarily due to expected future premium rate increases approved by DIFS being insufficient to cover anticipated benefit trends and medical costs.

MICChild - The MICChild PDR was established for the anticipated losses for the contract period in effect ending September 30, 2013, on the state sponsored insurance program, which provides health and dental benefits for uninsured children of Michigan's working families. The

outstanding receivable balances for excess losses were \$2,717,000 and \$24,333,000 as of December 31, 2013 and 2012, respectively. Effective October 1, 2013 BCBSM's PPO arrangement was not renewed as the Michigan Department of Community Health began moving MICHild membership to MICHild HMO plans to consolidate medical, pharmacy and vision coverage of MICHild members. During the September 30, 2014 contract year only a small portion of MICHild membership remains in the Company's PPO product. The State has agreed to cover any excess losses during this period.

31. ANTICIPATED SALVAGE AND SUBROGATION

The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and reduced such liability by \$11,040,000 and \$9,152,000 for 2013 and 2012, respectively.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES - GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?
If yes, complete Schedule Y, Parts 1, 1A and 2.

Yes [X] No []

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X] No [] N/A []

1.3

State regulating?
Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [X] No []

2.2

If yes, date of change:
09/06/2013

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2010

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity.
This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2010

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

05/07/2012

3.4

By what department or departments?
Michigan Department of Insurance and Financial Services

3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments?

Yes [] No [] N/A [X]

3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes [X] No [] N/A []

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [] No [X]

4.12

renewals?

Yes [] No [X]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [] No [X]

4.22

renewals?

Yes [] No [X]

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [X] No []

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| | | |
|------------------------------------|--------------------|------------------------|
| 1 Name of Entity | 2 NAIC Co. Code | 3 State of Domicile |
| Blue Cross Blue Shield Of Michigan | 54291 | Michigan |

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [] No [X]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]

7.2

If yes,

7.21

State the percentage of foreign control

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

| | |
|------------------|---------------------|
| 1 Nationality | 2 Type of Entity |
| | |

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4

If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

| | | | | | |
|---------------------|-----------------------------|----------|----------|-----------|----------|
| 1 Affiliate Name | 2 Location (City, State) | 3 FRB | 4 OCC | 5 FDIC | 6 SEC |
| | | | | | |

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Deloitte & Touche, Suite 3900, 200 Renaissance Center, Detroit, Michigan 48243-1704

10.1

Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation?

Yes [] No [X]

10.2

If the response to 10.1 is yes, provide information related to this exemption:

10.3

Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation?

Yes [] No [X]

10.4

If the response to 10.3 is yes, provide information related to this exemption:

10.5

Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws?

Yes [X] No [] N/A []

10.6

If the answer to 10.5 is no or n/a, please explain.

11.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Dave Nelson FSA MAAA Vice President and Chief Actuary Blue Cross Blue Shield of Michigan, 600 E. Lafayette, MC 2010, Detroit, Michigan 48226

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES - GENERAL

12.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes []

No [X]

12.11

Name of real estate holding company

12.12

Number of parcels involved

12.13

Total book/adjusted carrying value

12.2

If yes, provide explanation.

13.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

13.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

13.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes []

No []

13.3

Have there been any changes made to any of the trust indentures during the year?

Yes []

No []

13.4

If answer to (13.3) is yes, has the domiciliary or entry state approved the changes?

Yes []

No []

N/A []

14.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [X]

No []

a.

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b.

Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c.

Compliance with applicable governmental laws, rules and regulations;

d.

The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e.

Accountability for adherence to the code.

14.11

If the response to 14.1 is no, please explain:

14.2

Has the code of ethics for senior managers been amended?

Yes []

No [X]

14.21

If the response to 14.2 is yes, provide information related to amendment(s).

14.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes []

No [X]

14.31

If the response to 14.3 is yes, provide the nature of any waiver(s).

15.1

Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List?

Yes []

No [X]

15.2

If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

| | | | |
|---|---------------------------------|---|--------|
| 1 | 2 | 3 | 4 |
| American Bankers Association (ABA) Routing Number | Issuing or Confirming Bank Name | Circumstances That Can Trigger the Letter of Credit | Amount |
| | | | |

PART 1 - COMMON INTERROGATORIES - BOARD OF DIRECTORS

16.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [X]

No []

17.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [X]

No []

18.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [X]

No []

PART 1 - COMMON INTERROGATORIES - FINANCIAL

19.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes []

No [X]

20.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

20.11

To directors or other officers

\$.....0

20.12

To stockholders not officers

\$.....0

20.13

Trustees, supreme or grand (Fraternal only)

\$.....0

20.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

20.21

To directors or other officers

\$.....0

20.22

To stockholders not officers

\$.....0

20.23

Trustees, supreme or grand (Fraternal only)

\$.....0

21.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes []

No [X]

21.2

If yes, state the amount thereof at December 31 of the current year:

21.21

Rented from others

21.22

Borrowed from others

21.23

Leased from others

21.24

Other

22.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes []

No [X]

22.2

If answer is yes:

22.21

Amount paid as losses or risk adjustment

22.22

Amount paid as expenses

22.23

Other amounts paid

23.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [X]

No []

23.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....0

PART 1 - COMMON INTERROGATORIES - INVESTMENT

24.01

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 24.03)?

Yes [X]

No []

PART 1 - COMMON INTERROGATORIES - INVESTMENT

24.02 If no, give full and complete information relating thereto.

24.03 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 17 where this information is also provided).

Refer to Note 17

24.04 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs.

24.06 If answer to 24.04 is no, report amount of collateral for other programs.

24.07 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?

24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?

24.09 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?

24.10 For the reporting entity's security lending program, state the amount of the following as of December 31 of the current year:

24.101 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2.

24.102 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2.

24.103 Total payable for securities lending reported on the liability page.

25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.03)

25.2 If yes, state the amount thereof at December 31 of the current year:

25.21 Subject to repurchase agreements

25.22 Subject to reverse repurchase agreements

25.23 Subject to dollar repurchase agreements

25.24 Subject to reverse dollar repurchase agreements

25.25 Pledged as collateral

25.26 Placed under option agreements

25.27 Letter stock or securities restricted as to sale

25.28 On deposit with state or other regulatory body

25.29 Other

25.3 For category (25.27) provide the following:

| 1 | 2 | 3 |
|-----------------------|-------------|--------|
| Nature of Restriction | Description | Amount |
| | | |

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? If no, attach a description with this statement.

27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

27.2 If yes, state the amount thereof at December 31 of the current year:

28. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

28.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

| 1 | 2 |
|--|--|
| Name of Custodian(s) | Custodian's Address |
| State Street Bank & Trust | 801 Pennsylvania Kansas City, MO 64105 |
| Federal Home Loan Bank of Indianapolis | 8250 Woodfield Crossing, Indianapolis IN 46240 |
| Fidelity Investments | 100 Magellan Way, Covington, KY41015 |
| Comerica Institutional Services Group | 411 W. Lafayette Blvd. MC 3462 Detroit, MI 48226 |
| JP Morgan | 383 Madison Avenue, 4th Floor \| New York, NY 10179 |

28.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1 | 2 | 3 |
|---------|-------------|-------------------------|
| Name(s) | Location(s) | Complete Explanation(s) |
| | | |

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year?

28.04 If yes, give full and complete information relating thereto:

| 1 | 2 | 3 | 4 |
|---------------|---------------|----------------|--------|
| Old Custodian | New Custodian | Date of Change | Reason |
| | | | |

28.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1 | 2 | 3 |
|---|--|---|
| Central Registration Depository Number(s) | Name | Address |
| 105377 | Loomis Sayles | One Financial Center, Boston, MA 02111 |
| 106810 | Munder Capital Management | 480 Pierce St, Birmingham, MI 48009-6059 |
| 108518 | Snyder Capital Management, LP | One Market Plaza, Steuart Tower,Suite 1200, Sa |
| 110441 | Western Asset Management Co | 385 East Colorado Blvd, Pasadena, CA 91101 |
| 50584 | Piedmont Investment Advisors, LLC | 411 West Chapel Hill Street, Suite 1100, Durham |
| 113538 | Herndon Capital | Herndon Plaza, 100 Auburn Ave, NE Atlanta, GA |
| 106357 | Thornburg Investment Management | 2300 North Ridgetop Road, Santa Fe, NM 87506 |
| 111298 | Arrowstreet Capital, Limited Partnership | 200 Clarendon Street, 30th Floor, Boston, MA 02 |
| 114537 | Aegon USA Investment Management | 4333 Edgewood Road NE Cedar Rapids IA 5249 |

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?

PART 1 - COMMON INTERROGATORIES - INVESTMENT

29.2 If yes, complete the following schedule:

| 1 | 2 | 3 |
|----------------|-------------------------------|------------------------------|
| CUSIP # | Name of Mutual Fund | Book/Adjusted Carrying Value |
| 722005 62 6 | PIMCO All Asset Fund | 18,576,403 |
| 00769G 77 4 | Advisors Inner Circle | 23,306,357 |
| 464287 48 1 | Ishares Russell Midcap Growth | 525,266 |
| 78462F 10 3 | SPY EXCHANGE TRADED FUNDS | 1,407,185 |
| 29.2999. TOTAL | | 43,815,211 |

29.3 For each mutual fund listed in the table above, complete the following schedule:

| 1 | 2 | 3 | 4 |
|---|---|---|-------------------|
| Name of Mutual Fund (from the above table) | Name of Significant Holding of the Mutual Fund | Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding | Date of Valuation |
| PIMCO All Asset Fund | PIMCO INCOME FUND | 1,953,123 | 12/31/2013 |
| Advisors Inner Circle | GSMS 2007 - GG10 AM | 911,745 | 12/31/2013 |
| Ishares Russell Midcap Growth | Actavis plc | 5,321 | 12/31/2013 |
| SPY EXCHANGE TRADED FUNDS | APPLE INC | 42,384 | 12/31/2013 |

30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

| | 1 | 2 | 3 |
|----------------------------|----------------------------------|---------------|--|
| | Statement (Admitted) Value | Fair Value | Excess of Statement over Fair Value (-), or Fair Value over Statement (+) |
| 30.1 Bonds..... | 3,881,624,712 | 3,922,093,642 | 40,468,930 |
| 30.2 Preferred stocks..... | 7,700,998 | 8,886,344 | 1,185,346 |
| 30.3 Totals..... | 3,889,325,710 | 3,930,979,986 | 41,654,276 |

30.4 Describe the sources or methods utilized in determining the fair values:
Custodians, Bloomberg and Asset manager for foreign pricing.

- 31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D?

Yes [X] No []
- 31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source?

Yes [X] No []
- 31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D.

- 32.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [X] No []
- 32.2 If no, list exceptions:

PART 1 - COMMON INTERROGATORIES - OTHER

- 33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?

\$.....4,398,318
- 33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

| 1 | 2 |
|------------------------------------|-------------|
| Name | Amount Paid |
| Blue Cross Blue Shield Association | 4,234,207 |

- 34.1 Amount of payments for legal expenses, if any?

\$.....27,237,862
- 34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

| 1 | 2 |
|-----------------------|-------------|
| Name | Amount Paid |
| Hunton & Williams LLP | 9,434,767 |

- 35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$.....337,340
- 35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

| 1 | 2 |
|------|-------------|
| Name | Amount Paid |
| | |

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

- 1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [X] No []
- 1.2

If yes, indicate premium earned on U.S. business only

\$.....302,577,809
- 1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$.....0
- 1.31

Reason for excluding

- 1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$.....0
- 1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$.....457,710,648
- 1.6

Individual policies:
- Most current three years:

1.61

Total premium earned

\$.....302,577,809

1.62

Total incurred claims

\$.....457,710,648

1.63

Number of covered lives

.....209,023

All years prior to most current three years:

1.64

Total premium earned

\$.....0

1.65

Total incurred claims

\$.....0

1.66

Number of covered lives

.....0

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$.....0

1.72

Total incurred claims

\$.....0

1.73

Number of covered lives

.....0

All years prior to most current three years:

1.74

Total premium earned

\$.....0

1.75

Total incurred claims

\$.....0

1.76

Number of covered lives

.....0

2.

Health test:

| | | |
|-----|------------------------------|--|
| | 1 | 2 |
| | Current Year | Prior Year |
| 2.1 | Premium Numerator..... |6,572,304,337 6,319,342,469 |
| 2.2 | Premium Denominator..... |6,572,304,337 6,319,342,469 |
| 2.3 | Premium Ratio (2.1/2.2)..... |100.0 100.0 |
| 2.4 | Reserve Numerator..... |1,245,937,368 1,399,713,510 |
| 2.5 | Reserve Denominator..... |1,245,937,368 1,399,713,510 |
| 2.6 | Reserve Ratio (2.4/2.5)..... |100.0 100.0 |

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits?

Yes [] No [X]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [X] No []

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [X] No []

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [] No [X]

5.2

If no, explain:

Blue Cross Blue Shield of Michigan does not utilize stop-loss reinsurance due to the size and stability of the business and sufficient levels of capitalization

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....0

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....0

5.34

Dental and vision

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Maintain a restricted custodial bank account determined on the basis of a formula set by BCBSA and continuation insurance coverage with Collins and Associates.

7.1

Does the reporting entity set up its claim liability for provider services on a service date basis?

Yes [] No [X]

7.2

If no, give details:

Claim Liabilities are based on paid/incurred claims triangulation

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....46,803

8.2

Number of providers at end of reporting year

.....49,153

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [X] No []

9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

\$.....0

9.22

Business with rate guarantees over 36 months

\$.....0

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [X] No []

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....48,042,496

10.22

Amount actually paid for year bonuses

\$.....48,042,496

10.23

Maximum amount payable withholds

\$.....0

10.24

Amount actually paid for year withholds

\$.....0

28

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

- 11.1

Is the reporting entity organized as:
- 11.12

A Medical Group/Staff Model,

Yes [] No [X]
- 11.13

An Individual Practice Association (IPA), or

Yes [] No [X]
- 11.14

A Mixed Model (combination of above)?

Yes [] No [X]
- 11.2

Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [] No [X]
- 11.3

If yes, show the name of the state requiring such net worth.
- 11.4

If yes, show the amount required.
- 11.5

Is this amount included as part of a contingency reserve in stockholder's equity?

Yes [] No [X]
- 11.6

If the amount is calculated, show the calculation:

12. List service areas in which reporting entity is licensed to operate:

| |
|----------------------|
| 1 |
| Name of Service Area |
| |

- 13.1

Do you act as a custodian for health savings account?

Yes [] No [X]
- 13.2

If yes, please provide the amount of custodial funds held as of the reporting date.
- 13.3

Do you act as an administrator for health savings accounts?

Yes [] No [X]
- 13.4

If yes, please provide the balance of the funds administered as of the reporting date.

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
FIVE-YEAR HISTORICAL DATA

| | 1 2013 | 2 2012 | 3 2011 | 4 2010 | 5 2009 |
|--|---------------|---------------|---------------|---------------|---------------|
| Balance Sheet Items (Pages 2 and 3) | | | | | |
| 1. Total admitted assets (Page 2, Line 28)..... | 7,715,176,064 | 7,469,445,992 | 6,961,575,260 | 6,797,622,759 | 6,182,476,671 |
| 2. Total liabilities (Page 3, Line 24)..... | 4,426,452,467 | 4,408,848,725 | 4,171,923,308 | 4,038,155,202 | 3,620,246,663 |
| 3. Statutory surplus..... | 3,288,723,597 | 3,060,597,267 | 2,789,651,952 | 2,759,467,557 | 2,562,230,008 |
| 4. Total capital and surplus (Page 3, Line 33)..... | 3,288,723,597 | 3,060,597,267 | 2,789,651,952 | 2,759,467,557 | 2,562,230,008 |
| Income Statement Items (Page 4) | | | | | |
| 5. Total revenues (Line 8)..... | 6,688,428,325 | 6,412,685,175 | 6,395,397,758 | 6,574,692,435 | 6,986,393,893 |
| 6. Total medical and hospital expenses (Line 18)..... | 5,800,120,877 | 5,598,867,238 | 5,556,566,983 | 5,793,567,136 | 6,395,751,497 |
| 7. Claims adjustment expenses (Line 20)..... | 345,801,057 | 340,387,526 | 301,665,387 | 249,703,600 | 292,544,193 |
| 8. Total administrative expenses (Line 21)..... | 863,414,343 | 731,052,409 | 649,105,046 | 562,582,673 | 542,482,269 |
| 9. Net underwriting gain (loss) (Line 24)..... | (267,959,225) | (220,978,245) | (48,836,658) | (73,954,974) | (256,501,066) |
| 10. Net investment gain (loss) (Line 27)..... | 168,973,953 | 252,849,819 | 199,321,082 | 211,486,689 | 241,495,372 |
| 11. Total other income (Lines 28 plus 29)..... | 9,004,359 | (268,260) | (36,115,603) | (23,437,699) | 3,248,849 |
| 12. Net income or (loss) (Line 32)..... | (85,941,824) | (2,549,430) | 40,011,408 | 205,229,863 | 12,579,275 |
| Cash Flow (Page 6) | | | | | |
| 13. Net cash from operations (Line 11)..... | (227,433,401) | 224,799,911 | 286,725,351 | 167,937,899 | (111,885,115) |
| Risk-Based Capital Analysis | | | | | |
| 14. Total adjusted capital..... | 3,288,723,597 | 3,060,597,267 | 2,789,651,952 | 2,759,467,557 | 2,562,230,008 |
| 15. Authorized control level risk-based capital..... | 457,306,784 | 430,364,292 | 414,539,579 | 395,551,652 | 394,335,822 |
| Enrollment (Exhibit 1) | | | | | |
| 16. Total members at end of period (Column 5, Line 7)..... | 1,484,879 | 1,488,471 | 1,489,063 | 1,530,557 | 1,667,179 |
| 17. Total member months (Column 6, Line 7)..... | 18,053,589 | 17,796,250 | 17,946,160 | 18,757,734 | 20,470,544 |
| Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0 | | | | | |
| 18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 19. Total hospital and medical plus other non-health (Line 18 plus Line 19). | 87.2 | 87.8 | 86.9 | 88.1 | 91.5 |
| 20. Cost containment expenses..... | 2.1 | 2.3 | 1.7 | 1.5 | 1.8 |
| 21. Other claims adjustment expenses..... | 3.1 | 3.1 | 3.0 | 2.3 | 2.4 |
| 22. Total underwriting deductions (Line 23)..... | 104.6 | 104.0 | 100.8 | 101.1 | 103.7 |
| 23. Total underwriting gain (loss) (Line 24)..... | (4.0) | (3.5) | (0.8) | (1.1) | (3.7) |
| Unpaid Claims Analysis (U&I Exhibit, Part 2B) | | | | | |
| 24. Total claims incurred for prior years (Line 13 Col. 5)..... | 545,064,390 | 514,791,002 | 503,216,022 | 574,147,051 | 611,438,173 |
| 25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)] | 634,350,484 | 577,316,891 | 632,573,250 | 676,209,598 | 650,538,313 |
| Investments in Parent, Subsidiaries and Affiliates | | | | | |
| 26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)..... | | | | | |
| 27. Affiliated preferred stocks (Sch D. Summary, Line 18, Col. 1)..... | | 10,406,056 | | | |
| 28. Affiliated common stocks (Sch D. Summary, Line 24, Col. 1)..... | 1,710,633,231 | 1,563,213,456 | 1,333,707,057 | 1,218,983,700 | 1,149,787,380 |
| 29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10)..... | | | | | |
| 30. Affiliated mortgage loans on real estate..... | | | | | |
| 31. All other affiliated..... | 158,399,476 | | | | |
| 32. Total of above Lines 26 to 31..... | 1,869,032,707 | 1,573,619,512 | 1,333,707,057 | 1,218,983,700 | 1,149,787,380 |
| 33. Total investment in parent included in Lines 26 to 31 above..... | | | | | |

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [☐] No [☐ X]

If no, please explain:
On December 31, 2013, BCBSM and BCBSMMIC underwent a statutory merger. Balance sheets of the two merging entities were added together - See Footnote No.1 for additional details

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY
SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

| | | 1 | Direct Business Only | | | | | | | |
|-------------|--|---------------|----------------------------|----------------------|--------------------|---|--|-----------------------------|---------------------------|------------------------|
| | | | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| State, Etc. | | Active Status | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Plan Premiums | Life & Annuity Premiums and Other Considerations | Property/ Casualty Premiums | Total Columns 2 Through 7 | Deposit-Type Contracts |
| 1. | Alabama.....AL | N | | | | | | | .0 | |
| 2. | Alaska.....AK | N | | | | | | | .0 | |
| 3. | Arizona.....AZ | N | | | | | | | .0 | |
| 4. | Arkansas.....AR | N | | | | | | | .0 | |
| 5. | California.....CA | N | | | | | | | .0 | |
| 6. | Colorado.....CO | N | | | | | | | .0 | |
| 7. | Connecticut.....CT | N | | | | | | | .0 | |
| 8. | Delaware.....DE | N | | | | | | | .0 | |
| 9. | District of Columbia.....DC | N | | | | | | | .0 | |
| 10. | Florida.....FL | N | | | | | | | .0 | |
| 11. | Georgia.....GA | N | | | | | | | .0 | |
| 12. | Hawaii.....HI | N | | | | | | | .0 | |
| 13. | Idaho.....ID | N | | | | | | | .0 | |
| 14. | Illinois.....IL | N | | | | | | | .0 | |
| 15. | Indiana.....IN | N | | | | | | | .0 | |
| 16. | Iowa.....IA | N | | | | | | | .0 | |
| 17. | Kansas.....KS | N | | | | | | | .0 | |
| 18. | Kentucky.....KY | N | | | | | | | .0 | |
| 19. | Louisiana.....LA | N | | | | | | | .0 | |
| 20. | Maine.....ME | N | | | | | | | .0 | |
| 21. | Maryland.....MD | N | | | | | | | .0 | |
| 22. | Massachusetts.....MA | N | | | | | | | .0 | |
| 23. | Michigan.....MI | L | 5,041,177,575 | 1,126,944,123 | | 404,182,639 | | | 6,572,304,337 | |
| 24. | Minnesota.....MN | N | | | | | | | .0 | |
| 25. | Mississippi.....MS | N | | | | | | | .0 | |
| 26. | Missouri.....MO | N | | | | | | | .0 | |
| 27. | Montana.....MT | N | | | | | | | .0 | |
| 28. | Nebraska.....NE | N | | | | | | | .0 | |
| 29. | Nevada.....NV | N | | | | | | | .0 | |
| 30. | New Hampshire.....NH | N | | | | | | | .0 | |
| 31. | New Jersey.....NJ | N | | | | | | | .0 | |
| 32. | New Mexico.....NM | N | | | | | | | .0 | |
| 33. | New York.....NY | N | | | | | | | .0 | |
| 34. | North Carolina.....NC | N | | | | | | | .0 | |
| 35. | North Dakota.....ND | N | | | | | | | .0 | |
| 36. | Ohio.....OH | N | | | | | | | .0 | |
| 37. | Oklahoma.....OK | N | | | | | | | .0 | |
| 38. | Oregon.....OR | N | | | | | | | .0 | |
| 39. | Pennsylvania.....PA | N | | | | | | | .0 | |
| 40. | Rhode Island.....RI | N | | | | | | | .0 | |
| 41. | South Carolina.....SC | N | | | | | | | .0 | |
| 42. | South Dakota.....SD | N | | | | | | | .0 | |
| 43. | Tennessee.....TN | N | | | | | | | .0 | |
| 44. | Texas.....TX | N | | | | | | | .0 | |
| 45. | Utah.....UT | N | | | | | | | .0 | |
| 46. | Vermont.....VT | N | | | | | | | .0 | |
| 47. | Virginia.....VA | N | | | | | | | .0 | |
| 48. | Washington.....WA | N | | | | | | | .0 | |
| 49. | West Virginia.....WV | N | | | | | | | .0 | |
| 50. | Wisconsin.....WI | N | | | | | | | .0 | |
| 51. | Wyoming.....WY | N | | | | | | | .0 | |
| 52. | American Samoa.....AS | N | | | | | | | .0 | |
| 53. | Guam.....GU | N | | | | | | | .0 | |
| 54. | Puerto Rico.....PR | N | | | | | | | .0 | |
| 55. | U.S. Virgin Islands.....VI | N | | | | | | | .0 | |
| 56. | Northern Mariana Islands.....MP | N | | | | | | | .0 | |
| 57. | Canada.....CAN | N | | | | | | | .0 | |
| 58. | Aggregate Other alien.....OT | XXX | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |
| 59. | Subtotal..... | XXX | 5,041,177,575 | 1,126,944,123 | .0 | 404,182,639 | .0 | .0 | 6,572,304,337 | .0 |
| 60. | Reporting entity contributions for Employee Benefit Plans..... | XXX | | | | | | | .0 | |
| 61. | Total (Direct Business)..... | (a).....1 | 5,041,177,575 | 1,126,944,123 | .0 | 404,182,639 | .0 | .0 | 6,572,304,337 | .0 |

DETAILS OF WRITE-INS

| | | | | | | | | | |
|--|--|----|----|----|----|----|----|----|----|
| 58001. | | | | | | | | .0 | |
| 58002. | | | | | | | | .0 | |
| 58003. | | | | | | | | .0 | |
| 58998. Summary of remaining write-ins for line 58..... | | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |
| 58999. Total (Lines 58001 thru 58003 + 58998)..... | | .0 | .0 | .0 | .0 | .0 | .0 | .0 | .0 |

(L) - Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) - Registered - Non-domiciled RRGs; (Q) - Qualified - Qualified or Accredited Reinsurer;
(E) - Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) - None of the above - Not allowed to write business in the state.

Explanation of basis of allocation by states, premiums by state, etc.

(a) Insert the number of L responses except for Canada and Other Alien.

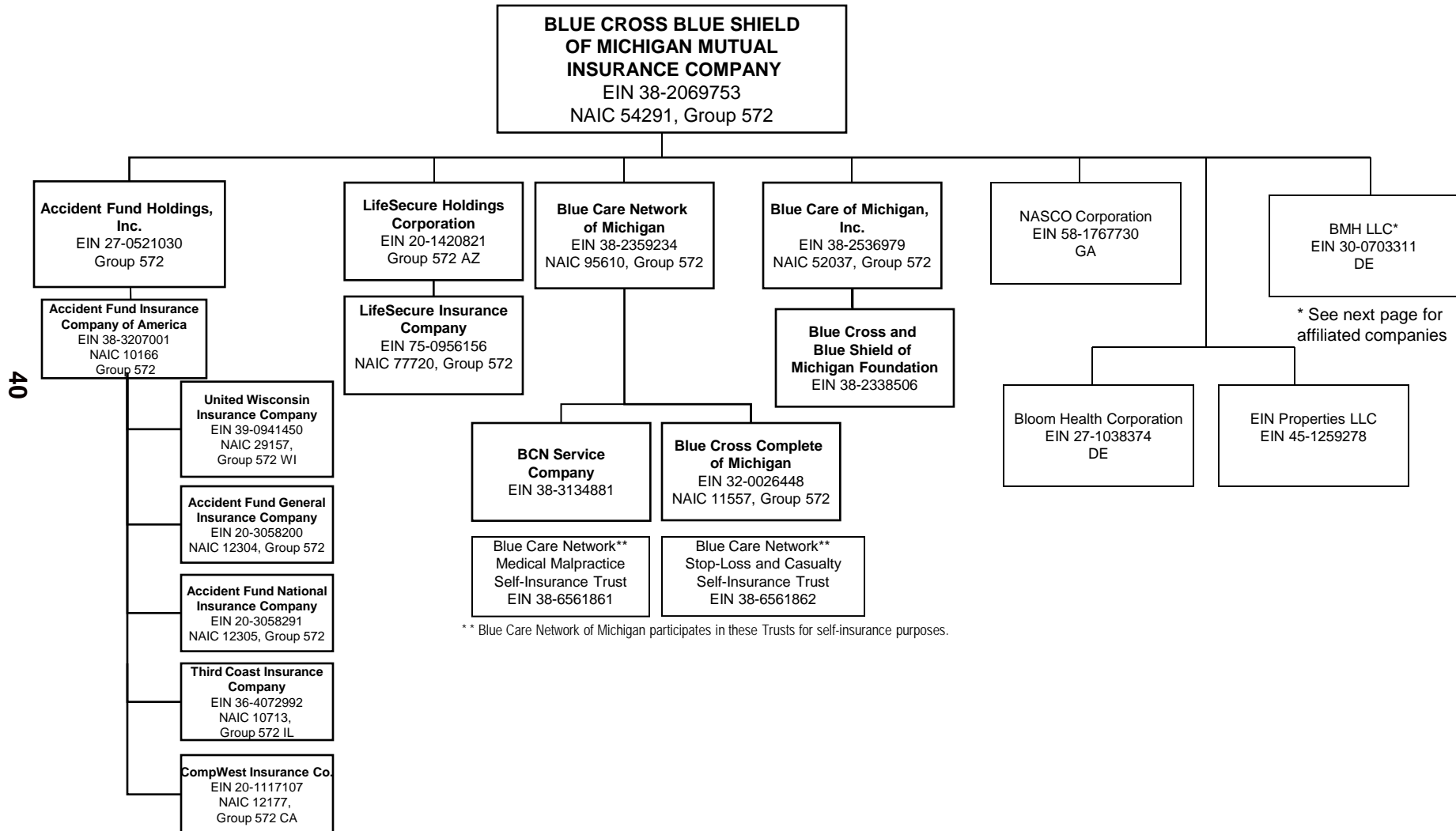


Blue Cross
Blue Shield
of Michigan

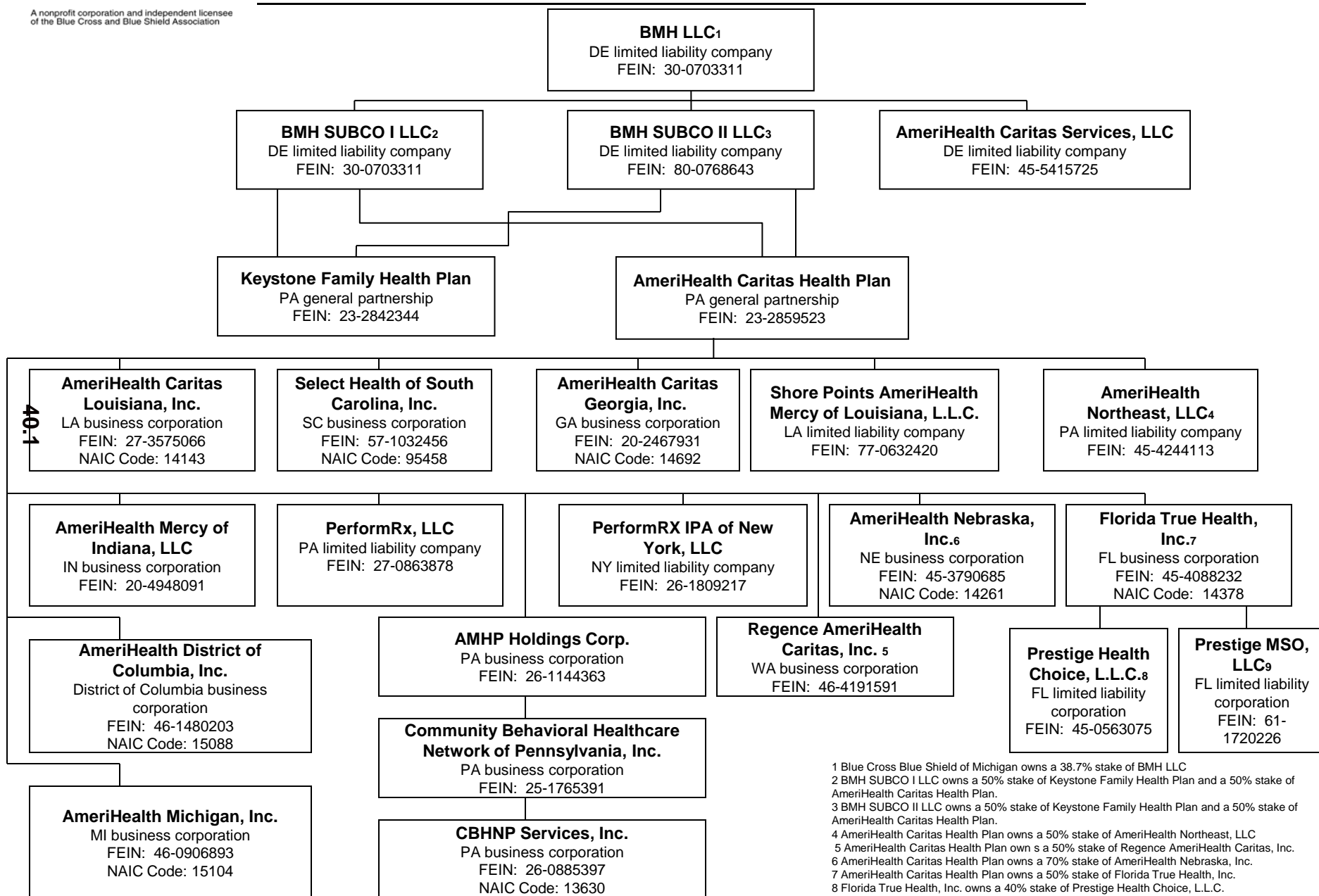
A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE COMPANY SUBSIDIARY & AFFILIATE ORGANIZATION CHART



1 Blue Cross Blue Shield of Michigan owns a 38.7% stake of BMH LLC
 2 BMH SUBCO I LLC owns a 50% stake of Keystone Family Health Plan and a 50% stake of AmeriHealth Caritas Health Plan.
 3 BMH SUBCO II LLC owns a 50% stake of Keystone Family Health Plan and a 50% stake of AmeriHealth Caritas Health Plan.
 4 AmeriHealth Caritas Health Plan owns a 50% stake of AmeriHealth Northeast, LLC
 5 AmeriHealth Caritas Health Plan owns a 50% stake of Regence AmeriHealth Caritas, Inc.
 6 AmeriHealth Caritas Health Plan owns a 70% stake of AmeriHealth Nebraska, Inc.
 7 AmeriHealth Caritas Health Plan owns a 50% stake of Florida True Health, Inc.
 8 Florida True Health, Inc. owns a 40% stake of Prestige Health Choice, L.L.C.
 9 Florida True Health, Inc. owns a 51% stake of Prestige MSO, LLC

2013 ALPHABETICAL INDEX
HEALTH ANNUAL STATEMENT BLANK

| | | | |
|--|------|--|------|
| Analysis of Operations By Lines of Business | 7 | Schedule D – Part 6 – Section 2 | E16 |
| Assets | 2 | Schedule D – Summary By Country | SI04 |
| Cash Flow | 6 | Schedule D – Verification Between Years | SI03 |
| Exhibit 1 – Enrollment By Product Type for Health Business Only | 17 | Schedule DA – Part 1 | E17 |
| Exhibit 2 – Accident and Health Premiums Due and Unpaid | 18 | Schedule DA – Verification Between Years | SI10 |
| Exhibit 3 – Health Care Receivables | 19 | Schedule DB – Part A – Section 1 | E18 |
| Exhibit 3A – Health Care Receivables Collected and Accrued | 20 | Schedule DB – Part A – Section 2 | E19 |
| Exhibit 4 – Claims Unpaid and Incentive Pool, Withhold and Bonus | 21 | Schedule DB – Part A – Verification Between Years | SI11 |
| Exhibit 5 – Amounts Due From Parent, Subsidiaries and Affiliates | 22 | Schedule DB – Part B – Section 1 | E20 |
| Exhibit 6 – Amounts Due To Parent, Subsidiaries and Affiliates | 23 | Schedule DB – Part B – Section 2 | E21 |
| Exhibit 7 – Part 1 – Summary of Transactions With Providers | 24 | Schedule DB – Part B – Verification Between Years | SI11 |
| Exhibit 7 – Part 2 – Summary of Transactions With Intermediaries | 24 | Schedule DB – Part C – Section 1 | SI12 |
| Exhibit 8 – Furniture, Equipment and Supplies Owned | 25 | Schedule DB – Part C – Section 2 | SI13 |
| Exhibit of Capital Gains (Losses) | 15 | Schedule DB – Part D – Section 1 | E22 |
| Exhibit of Net Investment Income | 15 | Schedule DB – Part D – Section 2 | E23 |
| Exhibit of Nonadmitted Assets | 16 | Schedule DB – Verification | SI14 |
| Exhibit of Premiums, Enrollment and Utilization (State Page) | 30 | Schedule DL – Part 1 | E24 |
| Five-Year Historical Data | 29 | Schedule DL – Part 2 | E25 |
| General Interrogatories | 27 | Schedule E – Part 1 – Cash | E26 |
| Jurat Page | 1 | Schedule E – Part 2 – Cash Equivalents | E27 |
| Liabilities, Capital and Surplus | 3 | Schedule E – Part 3 – Special Deposits | E28 |
| Notes To Financial Statements | 26 | Schedule E – Verification Between Years | SI15 |
| Overflow Page For Write-ins | 44 | Schedule S – Part 1 – Section 2 | 31 |
| Schedule A – Part 1 | E01 | Schedule S – Part 2 | 32 |
| Schedule A – Part 2 | E02 | Schedule S – Part 3 – Section 2 | 33 |
| Schedule A – Part 3 | E03 | Schedule S – Part 4 | 34 |
| Schedule A – Verification Between Years | SI02 | Schedule S – Part 5 | 35 |
| Schedule B – Part 1 | E04 | Schedule S – Part 6 | 36 |
| Schedule B – Part 2 | E05 | Schedule S – Part 7 | 37 |
| Schedule B – Part 3 | E06 | Schedule T – Part 2 – Interstate Compact | 38 |
| Schedule B – Verification Between Years | SI02 | Schedule T – Premiums and Other Considerations | 39 |
| Schedule BA – Part 1 | E07 | Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group | 40 |
| Schedule BA – Part 2 | E08 | Schedule Y – Part 1A – Detail of Insurance Holding Company System | 41 |
| Schedule BA – Part 3 | E09 | Schedule Y – Part 2 – Summary of Insurer’s Transactions With Any Affiliates | 42 |
| Schedule BA – Verification Between Years | SI03 | Statement of Revenue and Expenses | 4 |
| Schedule D – Part 1 | E10 | Summary Investment Schedule | SI01 |
| Schedule D – Part 1A – Section 1 | SI05 | Supplemental Exhibits and Schedules Interrogatories | 43 |
| Schedule D – Part 1A – Section 2 | SI08 | Underwriting and Investment Exhibit – Part 1 | 8 |
| Schedule D – Part 2 – Section 1 | E11 | Underwriting and Investment Exhibit – Part 2 | 9 |
| Schedule D – Part 2 – Section 2 | E12 | Underwriting and Investment Exhibit – Part 2A | 10 |
| Schedule D – Part 3 | E13 | Underwriting and Investment Exhibit – Part 2B | 11 |
| Schedule D – Part 4 | E14 | Underwriting and Investment Exhibit – Part 2C | 12 |
| Schedule D – Part 5 | E15 | Underwriting and Investment Exhibit – Part 2D | 13 |
| Schedule D – Part 6 – Section 1 | E16 | Underwriting and Investment Exhibit – Part 3 | 14 |